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

FORM 10-Q

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

For the quarterly period ended September 30, 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 ☐ No

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging Growth Company
x	☐	☐	☐	☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock as of November 2, 2020 was 51,588,496 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 intent and expectations regarding the conditional partial redemption of the 2023 Senior Notes, the Company's quarterly cash dividend, the Company's share repurchase targets, expected timing of the stock split, the Company's beliefs regarding the impact of its capital allocation strategy and ESG initiatives, and the Company's expectations regarding supply chain constraints, commodities, net sales and adjusted EBITDA per credit facility in the fourth quarter, performance generally for 2020 and subsequent periods, the probable vesting of the Company’s long-term aspirational plan and performance-based stock compensation plan and, the impacts of COVID-19. 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 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net sales	$ 1,132.3	$ 821.0	$ 2,619.9	$ 2,234.7
Cost of sales	602.1	460.4	1,466.7	1,278.9
Gross profit	530.2	360.6	1,153.2	955.8
Selling and marketing expenses	229.7	168.6	535.8	485.4
General, administrative and other expenses	125.1	75.3	288.1	218.7
Equity income in earnings of unconsolidated affiliates	(4.8)	(3.9)	(9.6)	(10.4)
Operating income	180.2	120.6	338.9	262.1
Other expense, net:				
Interest expense, net	20.1	20.8	61.0	65.7
Loss on extinguishment of debt	0.9	—	0.9	—
Other (income) expense, net	(0.5)	1.3	0.3	(6.5)
Total other expense, net	20.5	22.1	62.2	59.2
Income from continuing operations before income taxes	159.7	98.5	276.7	202.9
Income tax provision	(40.3)	(26.1)	(73.2)	(58.8)
Income from continuing operations	119.4	72.4	203.5	144.1
Income (loss) from discontinued operations, net of tax	2.4	0.8	1.3	(0.8)
Net income before non-controlling interests	121.8	73.2	204.8	143.3
Less: Net income (loss) attributable to non-controlling interests	0.4	(0.1)	0.7	—
Net income attributable to Tempur Sealy International, Inc.	$ 121.4	$ 73.3	$ 204.1	$ 143.3
Earnings per common share:				
Basic				
Earnings per share for continuing operations	$ 2.31	$ 1.33	$ 3.89	$ 2.63
Earnings (loss) per share for discontinued operations	0.04	0.01	0.02	(0.01)
Earnings per share	$ 2.35	$ 1.34	$ 3.91	$ 2.62
Diluted				
Earnings per share for continuing operations	$ 2.25	$ 1.30	$ 3.83	$ 2.57
Earnings (loss) per share for discontinued operations	0.04	0.01	0.03	(0.01)
Earnings per share	$ 2.29	$ 1.31	$ 3.86	$ 2.56
Weighted average common shares outstanding:				
Basic	51.6	54.6	52.2	54.7
Diluted	52.9	55.8	52.9	56.0

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 September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Net income before non-controlling interests	$ 121.8	$ 73.2	$ 204.8	$ 143.3
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	12.1	(6.7)	(0.2)	0.3
Other comprehensive income (loss), net of tax	12.1	(6.7)	(0.2)	0.3
Comprehensive income	133.9	66.5	204.6	143.6
Less: Comprehensive income (loss) attributable to non-controlling interests	0.4	(0.1)	0.7	—
Comprehensive income attributable to Tempur Sealy International, Inc.	$ 133.5	$ 66.6	$ 203.9	$ 143.6

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

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

	September 30, 2020	December 31, 2019
ASSETS	*(Unaudited)*	
Current Assets:		
Cash and cash equivalents	$ 229.2	$ 64.9
Accounts receivable, net	440.8	372.0
Inventories	275.6	260.5
Prepaid expenses and other current assets	202.5	202.8
Total Current Assets	1,148.1	900.2
Property, plant and equipment, net	485.8	435.8
Goodwill	761.1	732.3
Other intangible assets, net	630.9	641.4
Operating lease right-of-use assets	305.6	245.4
Deferred income taxes	15.6	14.1
Other non-current assets	108.3	92.6
Total Assets	$ 3,455.4	$ 3,061.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 330.9	$ 251.7
Accrued expenses and other current liabilities	601.4	473.2
Current portion of long-term debt	35.4	37.4
Income taxes payable	59.0	11.0
Total Current Liabilities	1,026.7	773.3
Long-term debt, net	1,494.6	1,502.6
Long-term operating lease obligations	275.3	205.4
Deferred income taxes	78.2	102.1
Other non-current liabilities	124.4	118.0
Total Liabilities	2,999.2	2,701.4
Redeemable non-controlling interest	8.9	—
Total Stockholders' Equity	447.3	360.4
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity	$ 3,455.4	$ 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 September 30, 2020

	Redeemable Non-controlling Interest	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 June 30, 2020	$ 8.7	99.2	$ 1.0	47.7	$ (2,026.3)	$ 586.0	$ 1,779.5	$ (100.0)	$ 0.8	$ 241.0
Net income							121.4			121.4
Net income attributable to non-controlling interests	0.2								0.2	0.2
Foreign currency adjustments, net of tax								12.1		12.1
Exercise of stock options				—	0.2	0.7				0.9
Issuances of PRSUs, RSUs, and DSUs				—	0.1	(0.1)				—
Treasury stock repurchased - PRSU/RSU/DSU releases				—	(0.1)					(0.1)
Amortization of unearned stock-based compensation						71.8				71.8
Balance, September 30, 2020	$ 8.9	99.2	$ 1.0	47.7	$ (2,026.1)	$ 658.4	$ 1,900.9	$ (87.9)	$ 1.0	$ 447.3

Three Months Ended September 30, 2019

	Redeemable Non-controlling Interest	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 June 30, 2019	$ —	99.2	$ 1.0	44.4	$ (1,737.3)	$ 545.6	$ 1,583.8	$ (88.3)	$ 1.1	$ 305.9
Net income							73.3			73.3
Net loss attributable to non-controlling interest									(0.1)	(0.1)
Foreign currency adjustments, net of tax								(6.7)		(6.7)
Exercise of stock options				(0.1)	1.9	5.4				7.3
Issuances of PRSUs, RSUs, and DSUs				—	0.1	(0.1)				—
Treasury stock repurchased				0.7	(50.0)					(50.0)
Treasury stock repurchased - PRSU/RSU/DSU releases				—	—					—
Amortization of unearned stock-based compensation						6.8				6.8
Balance, September 30, 2019	$ —	99.2	$ 1.0	45.0	$ (1,785.3)	$ 557.7	$ 1,657.1	$ (95.0)	$ 1.0	$ 336.5

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Nine Months Ended September 30, 2020

		Tempur Sealy International, Inc. Stockholders' Equity								
		Common Stock		Treasury Stock						
	Redeemable Non-controlling Interest	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, 2019	$ —	99.2	$ 1.0	45.4	$ (1,832.8)	$ 575.7	$ 1,703.3	$ (87.7)	$ 0.9	$ 360.4
Net income							204.1			204.1
Net income attributable to non-controlling interests	0.6								0.1	0.1
Adoption of accounting standard effective January 1, 2020, net of tax							(6.5)			(6.5)
Acquisition of non-controlling interest in subsidiary	8.4									—
Dividend paid to non-controlling interest in subsidiary	(0.1)									—
Foreign currency adjustments, net of tax								(0.2)		(0.2)
Exercise of stock options				—	0.5	1.9				2.4
Issuances of PRSUs, RSUs, and DSUs				(0.4)	5.8	(5.8)				—
Treasury stock repurchased				2.6	(187.5)					(187.5)
Treasury stock repurchased - PRSU/RSU/DSU releases				0.1	(12.1)					(12.1)
Amortization of unearned stock-based compensation						86.6				86.6
Balance, September 30, 2020	$ 8.9	99.2	$ 1.0	47.7	$ (2,026.1)	$ 658.4	$ 1,900.9	$ (87.9)	$ 1.0	$ 447.3

Nine Months Ended September 30, 2019

		Tempur Sealy International, Inc. Stockholders' Equity								
		Common Stock		Treasury Stock						
	Redeemable Non-controlling Interest	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							143.3			143.3
Net income attributable to non-controlling interest									—	—
Repurchase of interest in subsidiary									(1.9)	(1.9)
Foreign currency adjustments, net of tax								0.3		0.3
Exercise of stock options				(0.3)	3.6	9.2				12.8
Issuances of PRSUs, RSUs, and DSUs				(0.2)	3.6	(3.6)				—
Treasury stock repurchased				0.7	(52.3)					(52.3)
Treasury stock repurchased - PRSU/RSU/DSU releases				0.1	(3.2)					(3.2)
Amortization of unearned stock-based compensation						20.0				20.0
Balance, September 30, 2019	$ —	99.2	$ 1.0	45.0	$ (1,785.3)	$ 557.7	$ 1,657.1	$ (95.0)	$ 1.0	$ 336.5

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES FROM CONTINUING OPERATIONS:		
Net income before non-controlling interests	$ 204.8	$ 143.3
(Income) loss from discontinued operations, net of tax	(1.3)	0.8
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	72.5	66.7
Amortization of stock-based compensation	86.6	20.0
Amortization of deferred financing costs	2.6	1.7
Bad debt expense	32.8	7.3
Deferred income taxes	(23.4)	0.5
Dividends received from unconsolidated affiliates	15.8	12.8
Equity income in earnings of unconsolidated affiliates	(9.6)	(10.4)
Loss on extinguishment of debt	0.9	—
Foreign currency adjustments and other	0.4	(5.5)
Changes in operating assets and liabilities, net of effect of business acquisitions	115.8	(35.5)
Net cash provided by operating activities from continuing operations	497.9	201.7
CASH FLOWS FROM INVESTING ACTIVITIES FROM CONTINUING OPERATIONS:		
Purchases of property, plant and equipment	(73.6)	(61.9)
Acquisitions, net of cash acquired	(37.9)	(17.1)
Other	0.1	15.0
Net cash used in investing activities from continuing operations	(111.4)	(64.0)
CASH FLOWS FROM FINANCING ACTIVITIES FROM CONTINUING OPERATIONS:		
Proceeds from borrowings under long-term debt obligations	1,073.9	602.5
Repayments of borrowings under long-term debt obligations	(1,094.9)	(678.5)
Proceeds from exercise of stock options	2.4	12.8
Treasury stock repurchased	(199.6)	(55.5)
Payments of deferred financing costs	(1.4)	(0.1)
Repayments of finance lease obligations and other	(8.9)	(6.0)
Net cash used in financing activities from continuing operations	(228.5)	(124.8)
Net cash provided by continuing operations	158.0	12.9
CASH PROVIDED BY (USED IN) DISCONTINUED OPERATIONS		
Operating cash flows	1.5	(1.7)
Investing cash flows	—	—
Financing cash flows	—	—
Net cash provided by (used in) discontinued operations	1.5	(1.7)
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	4.8	(4.1)
Increase in cash and cash equivalents	164.3	7.1
CASH AND CASH EQUIVALENTS, beginning of period	64.9	45.8
CASH AND CASH EQUIVALENTS, end of period	$ 229.2	$ 52.9
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$ 46.1	$ 53.5
Income taxes, net of refunds	$ 47.0	$ 40.0

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 $16.0 million and $22.5 million at September 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. Additionally, in October 2020, the Company entered into a 50.0% ownership joint venture to reacquire the rights and acquire the assets to manufacture, market and distribute Sealy® and Stearns & Foster® branded products in the United Kingdom.

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 with 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)	September 30, 2020	December 31, 2019
Finished goods	$ 139.4	$ 157.4
Work-in-process	12.1	10.8
Raw materials and supplies	124.1	92.3
	$ 275.6	$ 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 September 30, 2020:

(in millions)	
Balance as of December 31, 2019	$ 39.3
Amounts accrued	81.6
Returns charged to accrual	(78.8)
Balance as of September 30, 2020	$ 42.1

As of September 30, 2020 and December 31, 2019, $29.0 million and $26.2 million of accrued sales returns are included as a component of accrued expenses and other current liabilities and $13.1 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 September 30, 2020:

(in millions)	
Balance as of December 31, 2019	$ 41.6
Amounts accrued	15.9
Warranties charged to accrual	(15.7)
Balance as of September 30, 2020	$ 41.8

As of September 30, 2020 and December 31, 2019, $18.8 million and $19.4 million of accrued warranty expense is included as a component of accrued expenses and other current liabilities and $23.0 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 allowance for credit losses is included in accounts receivable, net in the accompanying Condensed Consolidated Balance Sheets.

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

(in millions)		
Balance as of December 31, 2019	$	71.9
ASU 2016-13 adoption impact		8.9
Amounts accrued		32.8
Write-offs charged against the allowance		(17.0)
Balance as of September 30, 2020	$	96.6

(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 nine months ended September 30, 2020:

	Three Months Ended September 30, 2020			Nine Months Ended September 30, 2020		
(in millions)	North America	International	Consolidated	North America	International	Consolidated
Channel						
Wholesale	$ 869.1	$ 118.1	$ 987.2	$ 1,973.3	$ 300.0	$ 2,273.3
Direct	107.4	37.7	145.1	250.9	95.7	346.6
Net sales	$ 976.5	$ 155.8	$ 1,132.3	$ 2,224.2	$ 395.7	$ 2,619.9
	North America	**International**	**Consolidated**	**North America**	**International**	**Consolidated**
Product						
Bedding	$ 913.0	$ 123.6	$ 1,036.6	$ 2,086.3	$ 313.4	$ 2,399.7
Other	63.5	32.2	95.7	137.9	82.3	220.2
Net sales	$ 976.5	$ 155.8	$ 1,132.3	$ 2,224.2	$ 395.7	$ 2,619.9
	North America	**International**	**Consolidated**	**North America**	**International**	**Consolidated**
Geographical region						
United States	$ 904.3	$ —	$ 904.3	$ 2,078.8	$ —	$ 2,078.8
Canada	72.2	—	72.2	145.4	—	145.4
International	—	155.8	155.8	—	395.7	395.7
Net sales	$ 976.5	$ 155.8	$ 1,132.3	$ 2,224.2	$ 395.7	$ 2,619.9

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 nine months ended September 30, 2019:

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
(in millions)	North America	International	Consolidated	North America	International	Consolidated
Channel						
Wholesale	$ 602.2	$ 107.9	$ 710.1	$ 1,632.5	$ 325.7	$ 1,958.2
Direct	79.8	31.1	110.9	181.6	94.9	276.5
Net sales	$ 682.0	$ 139.0	$ 821.0	$ 1,814.1	$ 420.6	$ 2,234.7
	North America	International	Consolidated	North America	International	Consolidated
Product						
Bedding	$ 640.6	$ 111.6	$ 752.2	$ 1,709.2	$ 335.4	$ 2,044.6
Other	41.4	27.4	68.8	104.9	85.2	190.1
Net sales	$ 682.0	$ 139.0	$ 821.0	$ 1,814.1	$ 420.6	$ 2,234.7
	North America	International	Consolidated	North America	International	Consolidated
Geographical region						
United States	$ 621.4	$ —	$ 621.4	$ 1,652.3	$ —	$ 1,652.3
Canada	60.6	—	60.6	161.8	—	161.8
International	—	139.0	139.0	—	420.6	420.6
Net sales	$ 682.0	$ 139.0	$ 821.0	$ 1,814.1	$ 420.6	$ 2,234.7

(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
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.

(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	(1.6)	3.7	2.1
Balance as of September 30, 2020	$ 601.7	$ 159.4	$ 761.1

(5) Debt

Debt for the Company consists of the following:

	September 30, 2020		December 31, 2019		
(in millions, except percentages)	Amount	Rate	Amount	Rate	Maturity Date
2019 Credit Agreement:					
Term A Facility	$ 409.1	(1)	$ 425.0	(2)	October 16, 2024
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	—	(3)	—	(3)	April 6, 2021
Finance lease obligations [(4)]	73.1		64.1		Various
Other	3.1		7.9		Various
Total debt	1,535.3		1,547.0		
Less: Deferred financing costs	5.3		7.0		
Total debt, net	1,530.0		1,540.0		
Less: Current portion	35.4		37.4		
Total long-term debt, net	$ 1,494.6		$ 1,502.6		

(1) Interest at LIBOR plus applicable margin of 1.250% as of September 30, 2020.
(2) Interest at LIBOR plus applicable margin of 1.625% as of December 31, 2019.
(3) Interest at one month LIBOR index plus 80 basis points.
(4) Finance lease obligations are a non-cash financing activity. Refer to Note 6, "Leases".

As of September 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 September 30, 2020, total availability under the revolving credit facility was $424.9 million after a $0.1 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. On September 14, 2020, the Company repaid the 364-Day Loan. Repayment of the 364-Day Loan lifted certain restrictions on dividends, share repurchases and the Company's ability to 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 September 30, 2020, the Company had availability of $83.6 million under the Accounts Receivable Securitization.

2023 Senior Notes

On October 8, 2020, the Company announced its election to conditionally redeem $200.0 million of the $450.0 million of its issued and outstanding 2023 Senior Notes on November 9, 2020 (the "Redemption Date"). The 2023 Senior Notes selected for redemption will be redeemed at 101.406% of their principal amount, plus the accrued and unpaid interest. The redemption is conditioned on the determination by the Company's Chief Financial Officer, in his sole discretion, as of the second business day before the Redemption Date, that the redemption continues to be reasonably prudent and consistent with the Company's objectives concerning liquidity, financing needs and funding costs. The Company intends to primarily use current cash and cash equivalents to fund the redemption.

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)	**September 30, 2020**	**December 31, 2019**
2023 Senior Notes	$ 457.6	$ 464.2
2026 Senior Notes	623.9	634.9

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(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 September 30, 2020 and December 31, 2019:

(in millions)		September 30, 2020	December 31, 2019
Assets			
Operating lease assets	Operating lease right-of-use assets	$ 305.6	$ 245.4
Finance lease assets	Property, plant and equipment, net	63.0	54.4
Total leased assets		$ 368.6	$ 299.8
Liabilities			
Short-term:			
Operating lease obligations	Accrued expenses and other current liabilities	$ 59.6	$ 50.8
Finance lease obligations	Current portion of long-term debt	11.0	8.2
Long-term:			
Operating lease obligations	Long-term operating lease obligations	275.3	205.4
Finance lease obligations	Long-term debt, net	62.1	55.9
Total lease obligations		$ 408.0	$ 320.3

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2020	2019	2020	2019
Operating lease expense:				
Operating lease expense	$ 19.1	$ 16.3	$ 55.8	$ 46.4
Short-term lease expense	2.6	2.9	8.3	5.2
Variable lease expense	6.0	4.8	15.7	13.6
Finance lease expense:				
Amortization of right-of-use assets	2.5	2.1	6.9	6.3
Interest on lease obligations	1.2	1.2	3.5	3.6
Total lease expense	$ 31.4	$ 27.3	$ 90.2	$ 75.1

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

(in millions)	Operating Leases	Finance Leases	Total
Year Ended December 31,			
2020 (excluding the nine months ended September 30, 2020)	$ 18.9	$ 3.8	$ 22.7
2021	72.1	15.1	87.2
2022	64.8	13.1	77.9
2023	52.5	10.4	62.9
2024	44.0	8.5	52.5
Thereafter	142.8	41.6	184.4
Total lease payments	395.1	92.5	487.6
Less: Interest	60.2	19.4	79.6
Present value of lease obligations	$ 334.9	$ 73.1	$ 408.0

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

	September 30, 2020
Weighted average remaining lease term (years):	
Operating leases	6.69
Finance leases	8.09
Weighted average discount rate:	
Operating leases	4.95 %
Finance leases	5.84 %

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

	Nine Months Ended	
(in millions)	September 30, 2020	September 30, 2019
Cash paid for amounts included in the measurement of lease obligations:		
Operating cash flows paid for operating leases	$ 51.0	$ 42.5
Operating cash flows paid for finance leases	$ 3.6	$ 3.6
Financing cash flows paid for finance leases	$ 7.5	$ 5.9
Right-of-use assets obtained in exchange for new operating lease obligations	$ 95.1	$ 66.1
Right-of-use assets obtained in exchange for new finance lease obligations	$ 16.5	$ 2.5

(7) Stockholders' Equity

(a) *Treasury Stock.* As of September 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. The Company did not repurchase shares under the program during the three months ended September 30, 2020. The Company repurchased 0.7 million shares under the program for approximately $50.0 million during the three months ended September 30, 2019. The Company repurchased 2.6 million shares and 0.7 million shares for approximately $187.5 million and $52.3 million during the nine months ended September 30, 2020 and 2019, respectively. In October 2020, the Board of Directors authorized an increase, of $168.7 million, to the existing share repurchase authorization of Tempur Sealy International's common stock to $300.0 million.

In addition, the Company acquired shares upon the vesting of certain restricted stock units ("RSUs"), which were withheld to satisfy tax withholding obligations during each of the three and nine months ended September 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 $0.1 million and $0.0 million in treasury stock acquired during the three months ended September 30, 2020 and 2019, respectively. The Company acquired approximately $12.1 million and $3.2 million in treasury stock during the nine months ended September 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 entitled 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"). In accordance with their terms, the Rights were set to expire at the close of business on March 26, 2021 or such other date as may be established by the Board of Directors as permitted under the Rights Agreement. On September 11, 2020, the Board of Directors accelerated the expiration of the Rights to the close of business on September 14, 2020, at which time the Rights expired and the Rights Agreement was terminated.

(c) *Common Stock Split.* On October 28, 2020, the Board of Directors approved a four-for-one split of the Company's common stock. The stock split will be effected through a stock dividend entitling each shareholder of record on November 10, 2020 to receive an additional three shares of common stock for each share owned. The shares will be distributed after the close of trading on November 23, 2020, and trading of the Company's common stock will begin on a split-adjusted basis on November 24, 2020. The Company's consolidated financial statements as of and for the three and nine-month periods ended September 30, 2020 and 2019 do not reflect the four-for-one stock split, which will be effective on November 24, 2020.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2020**	**2019**	**2020**	**2019**
Foreign Currency Translation				
Balance at beginning of period	$ (94.5)	$ (84.7)	$ (82.2)	$ (91.7)
Other comprehensive loss:				
Foreign currency translation adjustments (1)	12.1	(6.7)	(0.2)	0.3
Balance at end of period	$ (82.4)	$ (91.4)	$ (82.4)	$ (91.4)
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)	September 30, 2020	December 31, 2019
Taxes	$ 146.5	$ 136.0
Wages and benefits	97.0	79.5
Advertising	94.6	56.9
Operating lease obligations	59.6	50.8
Other	203.7	150.0
	$ 601.4	$ 473.2

(9) Stock-Based Compensation

The Company's stock-based compensation expense for the three and nine months ended September 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 September 30,		Nine Months Ended September 30,	
(in millions)	2020	2019	2020	2019
PRSU expense	$ 65.0	$ 0.3	$ 66.2	$ 1.0
Option expense	1.3	1.3	3.7	3.7
RSU/DSU expense	5.5	5.2	16.7	15.3
Total stock-based compensation expense	$ 71.8	$ 6.8	$ 86.6	$ 20.0

The Company grants PRSUs to executive officers and certain members of management. Actual payout under the PRSUs is dependent upon the achievement of certain financial goals. During the first quarter of 2020, the Company granted PRSUs as a component of the long-term incentive plan ("2020 PRSUs"). The Company has recorded stock-based compensation expense related to the 2020 PRSUs during the three and nine months ended September 30, 2020, as it was probable that the Company would achieve the specified performance target for the performance period.

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.

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The Company recorded $45.2 million of stock-based compensation expense related to the 2019 Aspirational Plan PRSUs during the three months ended September 30, 2020, as it became probable the Company would achieve the highest specified performance target. Based on the price of the Company's common stock on the grant date, the remaining unrecognized compensation expense related to this award is approximately $4.2 million, which will be recognized in the fourth quarter of 2020, commensurate with the remaining requisite service period.

(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 September 30, 2020 and 2019 was 25.2% and 26.5%, respectively. The Company's effective tax rate for the nine months ended September 30, 2020 and 2019 was 26.5% and 29.0%, respectively. The Company's effective tax rate for the three and nine months ended September 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 September 30, 2020 and December 31, 2019, the Danish income tax liability recorded in the Company's balance sheet for the periods 2001 through September 30, 2020 and December 31, 2019, respectively, is DKK 1,126.3 million and DKK 1,110.6 million, respectively (approximately $177.4 million and $166.7 million using the applicable exchange rates at September 30, 2020 and December 31, 2019, respectively). The liability at September 30, 2020 and December 31, 2019 is included within the Company's Condensed Consolidated Balance Sheet (translated at the exchange rate on September 30, 2020 and December 31, 2019) as per below:

	September 30, 2020		December 31, 2019	
	DKK	USD	DKK	USD
Accrued expenses and other current liabilities	847.3	$ 133.5	847.3	$ 127.2
Other non-current liabilities	279.0	43.9	263.3	39.5
Total	1,126.3	$ 177.4	1,110.6	$ 166.7

During the three months ended September 30, 2020, the Company made a tax deposit with SKAT of DKK 76.8 million applicable to a tax assessment by SKAT for the year 2014. Also, 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 both assessments. At September 30, 2020 and December 31, 2019, respectively, the Company held on deposit with SKAT DKK 1,180.9 million and DKK 970.1 million (approximately $186.0 million and $145.6 million using the applicable exchange rates at September 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 September 30, 2020 and December 31, 2019 is included within the Company's Condensed Consolidated Balance Sheet (translated at the exchange rates on September 30, 2020 and December 31, 2019) as per below:

	September 30, 2020		December 31, 2019	
	DKK	USD	DKK	USD
Prepaid expenses and other current assets	847.3	$ 133.5	847.3	$ 127.2
Other non-current assets	333.6	52.5	122.8	18.4
Total	1,180.9	$ 186.0	970.1	$ 145.6

There were no significant changes in the Danish Tax Matter or other uncertain tax positions during the three or nine months ended September 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 September 30,		Nine Months Ended September 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	$ 119.0	$ 72.5	$ 202.8	$ 144.1
Denominator:				
Denominator for basic earnings per common share-weighted average shares	51.6	54.6	52.2	54.7
Effect of dilutive securities:				
Employee stock-based compensation	1.3	1.2	0.7	1.3
Denominator for diluted earnings per common share-adjusted weighted average shares	52.9	55.8	52.9	56.0
Basic earnings per common share for continuing operations	$ 2.31	$ 1.33	$ 3.89	$ 2.63
Diluted earnings per common share for continuing operations	$ 2.25	$ 1.30	$ 3.83	$ 2.57

The Company excluded an insignificant number of shares for the three months ended September 30, 2020, from the diluted earnings per common share computation because their exercise price was greater than the average market price of Tempur Sealy International's common stock or they were otherwise anti-dilutive. The Company did not exclude any shares for the three months ended September 30, 2019. The Company excluded 0.5 million and 1.1 million shares issuable upon exercise of outstanding stock options for the nine months ended September 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.

(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)	September 30, 2020	December 31, 2019
North America	$ 3,595.8	$ 3,142.9
International	647.6	615.3
Corporate	582.8	477.1
Inter-segment eliminations	(1,370.8)	(1,173.5)
Total assets	$ 3,455.4	$ 3,061.8

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

(in millions)	September 30, 2020	December 31, 2019
North America	$ 390.2	$ 328.9
International	52.3	51.8
Corporate	43.3	55.1
Total property, plant and equipment, net	$ 485.8	$ 435.8

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

(in millions)	September 30, 2020	December 31, 2019
North America	$ 261.5	$ 202.0
International	41.9	42.2
Corporate	2.2	1.2
Total operating lease right-of-use assets	$ 305.6	$ 245.4

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

(in millions)	North America	International	Corporate	Eliminations	Consolidated
Net sales	$ 976.5	$ 155.8	$ —	$ —	$ 1,132.3
Inter-segment sales	$ 0.2	$ 0.3	$ —	$ (0.5)	$ —
Inter-segment royalty expense (income)	2.5	(2.5)	—	—	—
Gross profit	438.6	91.6	—	—	530.2
Operating income (loss)	231.5	44.8	(96.1)	—	180.2
Income (loss) from continuing operations before income taxes	229.9	44.1	(114.3)	—	159.7
Depreciation and amortization (1)	$ 19.6	$ 3.6	$ 73.6	$ —	$ 96.8
Capital expenditures	20.2	2.0	2.0	—	24.2

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

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

(in millions)	North America	International	Corporate	Eliminations	Consolidated
Net sales	$ 682.0	$ 139.0	$ —	$ —	$ 821.0
Inter-segment sales	$ 0.6	$ —	$ —	$ (0.6)	$ —
Inter-segment royalty expense (income)	1.2	(1.2)	—	—	—
Gross profit	286.8	73.8	—	—	360.6
Operating income (loss)	119.8	27.3	(26.5)	—	120.6
Income (loss) from continuing operations before income taxes	117.8	24.0	(43.3)	—	98.5
Depreciation and amortization (1)	$ 17.1	$ 3.4	$ 9.5	$ —	$ 30.0
Capital expenditures	15.0	2.0	5.0	—	22.0

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

The following table summarizes segment information for the nine months ended September 30, 2020:

(in millions)	North America	International	Corporate	Eliminations	Consolidated
Net sales	$ 2,224.2	$ 395.7	$ —	$ —	$ 2,619.9
Inter-segment sales	$ 1.1	$ 0.4	$ —	$ (1.5)	$ —
Inter-segment royalty expense (income)	4.6	(4.6)	—	—	—
Gross profit	932.0	221.2	—	—	1,153.2
Operating income (loss)	402.3	81.0	(144.4)	—	338.9
Income (loss) from continuing operations before income taxes	397.5	76.2	(197.0)	—	276.7
Depreciation and amortization (1)	$ 55.8	$ 10.3	$ 93.0	$ —	$ 159.1
Capital expenditures	59.6	7.5	6.5	—	73.6

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

The following table summarizes segment information for the nine months ended September 30, 2019:

(in millions)	North America	International	Corporate	Eliminations	Consolidated
Net sales	$ 1,814.1	$ 420.6	$ —	$ —	$ 2,234.7
Inter-segment sales	$ 2.5	$ 0.4	$ —	$ (2.9)	$ —
Inter-segment royalty expense (income)	3.2	(3.2)	—	—	—
Gross profit	731.2	224.6	—	—	955.8
Operating income (loss)	264.2	79.9	(82.0)	—	262.1
Income (loss) from continuing operations before income taxes	258.8	77.0	(132.9)	—	202.9
Depreciation and amortization [(1)]	$ 47.7	$ 10.2	$ 28.8	$ —	$ 86.7
Capital expenditures	42.3	8.0	11.6	—	61.9

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

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

(in millions)	September 30, 2020	December 31, 2019
United States	$ 418.0	$ 366.4
Canada	15.5	17.5
Other International	52.3	51.9
Total property, plant and equipment, net	$ 485.8	$ 435.8
Total International	$ 67.8	$ 69.4

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

(in millions)	September 30, 2020	December 31, 2019
United States	$ 260.0	$ 198.3
Canada	3.7	4.9
Other International	41.9	42.2
Total operating lease right-of-use assets	$ 305.6	$ 245.4
Total International	$ 45.6	$ 47.1

The following table summarizes net sales by geographic region:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2020	2019	2020	2019
United States	$ 904.3	$ 621.4	$ 2,078.8	$ 1,652.3
Canada	72.2	60.6	145.4	161.8
Other International	155.8	139.0	395.7	420.6
Total net sales	$ 1,132.3	$ 821.0	$ 2,619.9	$ 2,234.7
Total International	$ 228.0	$ 199.6	$ 541.1	$ 582.4

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 nine months ended September 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.

Capital Allocation

In the fourth quarter, we announced our new long-term capital allocation strategy, which includes a quarterly cash dividend beginning in 2021, an increase to our share repurchase authorization and a four-for-one stock split. Our complete capital allocation strategy includes the following components:

- Invest approximately $70 million annually for capital expenditures to invest in our people, products and processes.
- Initiate a quarterly cash dividend beginning in early 2021, subject to approval by the Board of Directors, targeting an annual distribution to our stockholders of approximately 15% of net income.
- Resume our share repurchase program and target to repurchase at least 3% of shares outstanding per year in the near-term, depending on market conditions.
- Evaluate acquisition opportunities with a focus on strategic acquisitions similar to those we have completed over the past few years.

- Execute a four-for-one stock split, which will be effected through a stock dividend in the fourth quarter of 2020, to make our common stock more accessible and improve trading liquidity.

Environmental, Social and Corporate Governance

We have announced multiple initiatives to further reduce our global environmental footprint. In 2020, we began sourcing 100% renewable electricity for our U.S. and European Tempur-Pedic and Sealy manufacturing operations. Additionally, we remain committed to our investment in solar power technology and expect to complete the installation of the solar panel technology at our Albuquerque, New Mexico manufacturing facility in the first half of 2021. Finally, we announced a commitment to achieving zero landfill waste for our U.S. and European manufacturing operations by the end of 2022.

Keeping our employees safe and healthy is a top priority during this time of uncertainty caused by COVID-19. 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 of 2020, 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. Additionally, we worked with various government and healthcare organizations to provide products and services.

Business Update

We believe the U.S. bedding industry has evolved to be healthy and is now structured for sustained growth. The industry is no longer engaged in uneconomical retail store expansion, startups have shifted from uneconomical strategies to becoming profitable, and legacy retailers and manufacturers have become skilled in producing profitable internet sales. Additionally, the U.S. Department of Commerce recently announced its preliminary determination of tariffs on certain imports which are expected to benefit U.S. manufacturers, including us.

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 significantly improved beginning in late May, and this improvement continued throughout the second and third quarters of 2020. This improvement was primarily due to the reopening of brick-and-mortar stores on a reduced or appointment only basis 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 continue to favorably impact our business.

This unexpected and rapid increase in demand for bedding products has challenged the entire bedding industry and supply chain, including our business. Additionally, the U.S. government has mandated that domestic suppliers of certain materials used in the production of bedding products redirect such materials towards the production of personal protective equipment. The broad-based increase in demand coupled with supply chain constraints, primarily related to an encased innerspring component, has created operational challenges in the production of Sealy and Sherwood bedding products in the U.S. As a result, Sealy's third quarter sales growth was unfavorably impacted by these supply chain constraints, as we could not fulfill the domestic demand for Sealy mattresses. We expect these supply chain constraints to continue for the next few quarters. The Tempur-Pedic manufacturing process has not been as impacted by the current supply chain constraints.

Our business has a highly variable cost structure that can flex with changes in sales, as evidenced by our ability to quickly reduce costs in the second quarter of 2020 to maintain profitability when we were uncertain of the impact of COVID-19. In the third quarter of 2020, most of these cost reductions were reversed. This increase in spending reflects our forward-looking confidence in the business as we make the necessary investments to support long-term growth.

Certain international markets are now experiencing new restrictions related to COVID-19 that are expected to cause some headwinds for the remainder of 2020. Additionally, in the fourth quarter of 2019, we shipped a large amount of floor models and back stock inventory as we expanded into new distribution networks, which we expect will impact comparisons with the fourth quarter of 2020. We are targeting net sales to increase by low double digits and adjusted EBITDA per credit facility, which is a non-GAAP financial measure, to grow by high teens in the fourth quarter of 2020, as compared to the same period in 2019.

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 the 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.

Commodities

Future changes in raw material prices could have an unfavorable impact on our gross margin. In the nine months ended September 30, 2020, commodity costs favorably impacted our gross margin. However commodity costs were higher than expected for the third quarter of 2020. We currently expect commodity cost inflation to continue into 2021. As a result, we plan to implement a price increase in the fourth quarter of 2020 across all of our U.S. brands, including Sealy, Stearns & Foster, and Tempur-Pedic products, which we expect to mitigate or fully offset the commodity cost inflation we anticipate in 2021.

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. Since the acquisition, we have leveraged our overall brand portfolio to gain additional distribution for Sherwood products.

Results of Operations

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

- Total net sales increased 37.9% to $1,132.3 million as compared to $821.0 million in the third quarter of 2019. On a constant currency basis, which is a non-GAAP financial measure, total net sales increased 37.7%, with an increase of 43.3% in the North America business segment and an increase of 10.1% in the International business segment.
- Gross margin was 46.8% as compared to 43.9% in the third quarter of 2019. Adjusted gross margin, which is a non-GAAP financial measure, was 46.9% in the third quarter of 2020. There were no adjustments to gross margin in the third quarter of 2019.
- Operating income increased 49.4% to $180.2 million as compared to $120.6 million in the third quarter of 2019. Operating income in the third quarter of 2020 included $45.2 million of amortization for aspirational plan stock-based compensation. Adjusted operating income, which is a non-GAAP financial measure, was $227.2 million in the third quarter of 2020. There were no adjustments to operating income in the third quarter of 2019.
- Net income increased 65.6% to $121.4 million as compared to $73.3 million in the third quarter of 2019. Adjusted net income, which is a non-GAAP financial measure, increased 114.3% to $155.4 million as compared to $72.5 million in the third quarter of 2019.
- Earnings before interest, tax, depreciation and amortization ("EBITDA"), which is a non-GAAP financial measure, increased 85.7% to $279.9 million as compared to $150.7 million in the third quarter of 2019. Adjusted EBITDA per credit facility, which is a non-GAAP financial measure, increased 86.3% to $279.3 million as compared to $149.9 million in the third quarter of 2019.

- Earnings per diluted share ("EPS") increased 74.8% to $2.29 as compared to $1.31 in the third quarter of 2019. Adjusted EPS, which is a non-GAAP financial measure, increased 126.2% to $2.94 as compared to $1.30 in the third quarter of 2019.
- For the trailing twelve months ended September 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 1.92 times as compared to 3.22 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 SEPTEMBER 30, 2020 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 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 September 30,			
(in millions, except percentages and per share amounts)	2020		2019	
Net sales	$ 1,132.3	100.0 %	$ 821.0	100.0 %
Cost of sales	602.1	53.2	460.4	56.1
Gross profit	530.2	46.8	360.6	43.9
Selling and marketing expenses	229.7	20.3	168.6	20.5
General, administrative and other expenses	125.1	11.0	75.3	9.2
Equity income in earnings of unconsolidated affiliates	(4.8)	(0.4)	(3.9)	(0.5)
Operating income	180.2	15.9	120.6	14.7
Other expense, net:				
Interest expense, net	20.1	1.8	20.8	2.5
Loss on extinguishment of debt	0.9	0.1	—	—
Other (income) expense, net	(0.5)	—	1.3	0.2
Total other expense, net	20.5	1.8	22.1	2.7
Income from continuing operations before income taxes	159.7	14.1	98.5	12.0
Income tax provision	(40.3)	(3.6)	(26.1)	(3.2)
Income from continuing operations	119.4	10.5	72.4	8.8
Income from discontinued operations, net of tax	2.4	0.2	0.8	0.1
Net income before non-controlling interests	121.8	10.8	73.2	8.9
Less: Net income (loss) attributable to non-controlling interests	0.4	—	(0.1)	—
Net income attributable to Tempur Sealy International, Inc.	$ 121.4	10.7 %	$ 73.3	8.9 %
Earnings per common share:				
Basic				
Earnings per share for continuing operations	$ 2.31		$ 1.33	
Earnings per share for discontinued operations	0.04		0.01	
Earnings per share	$ 2.35		$ 1.34	
Diluted				
Earnings per share for continuing operations	$ 2.25		$ 1.30	
Earnings per share for discontinued operations	0.04		0.01	
Earnings per share	$ 2.29		$ 1.31	
Weighted average common shares outstanding:				
Basic	51.6		54.6	
Diluted	52.9		55.8	

NET SALES

(in millions)	Three Months Ended September 30, 2020 Consolidated	2019 Consolidated	2020 North America	2019 North America	2020 International	2019 International
Net sales by channel						
Wholesale	$ 987.2	$ 710.1	$ 869.1	$ 602.2	$ 118.1	$ 107.9
Direct	145.1	110.9	107.4	79.8	37.7	31.1
Total net sales	$ 1,132.3	$ 821.0	$ 976.5	$ 682.0	$ 155.8	$ 139.0

Net sales increased 37.9%, and on a constant currency basis increased 37.7%. The change in net sales was driven by the following:

- *North America* net sales increased $294.5 million, or 43.2%. Net sales in the Wholesale channel increased $266.9 million, or 44.3%, primarily driven by broad-based demand across both existing and new distribution networks. Net sales in the Direct channel increased $27.6 million, or 34.6%, primarily driven by growth from our e-commerce business, offset by slightly decreased performance at our company owned stores which were closed or operating under reduced hours or modified operations for a time during the third quarter as a result of the global pandemic.

- *International* net sales increased $16.8 million, or 12.1%. On a constant currency basis, International net sales increased 10.1%. Net sales in the Wholesale channel increased 8.2% on a constant currency basis. Net sales in the Direct channel increased 16.7% on a constant currency basis.

GROSS PROFIT

(in millions, except percentages)	Three Months Ended September 30, 2020 Gross Profit	2020 Gross Margin	2019 Gross Profit	2019 Gross Margin	Margin Change
North America	$ 438.6	44.9 %	$ 286.8	42.1 %	2.8 %
International	91.6	58.8 %	73.8	53.1 %	5.7 %
Consolidated gross margin	$ 530.2	46.8 %	$ 360.6	43.9 %	2.9 %

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 improved 290 basis points. The primary drivers of changes in gross margin by segment are discussed below:

- *North America* gross margin improved 280 basis points. The improvement in gross margin was primarily driven by fixed cost leverage and productivity on higher unit volumes of 200 basis points, brand mix of 90 basis points and lower commodity costs. Additionally, we incurred $0.6 million of operational expansion costs related to the opening of a Sealy manufacturing facility, which partially offset the improvement in gross margin.

- *International* gross margin improved 570 basis points. The improvement in gross margin was primarily driven by favorable mix of 220 basis points, fixed cost leverage and productivity on higher unit volumes of 170 basis points and lower commodity costs.

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 September 30,							
	2020	2019	2020	2019	2020	2019	2020	2019
(in millions)	Consolidated		North America		International		Corporate	
Operating expenses:								
Advertising expenses	$ 101.2	$ 75.0	$ 91.5	$ 65.8	$ 9.7	$ 9.2	$ —	$ —
Other selling and marketing expenses	128.5	93.6	67.6	60.5	30.2	30.2	30.7	2.9
General, administrative and other expenses	125.1	75.3	48.0	40.7	11.7	11.0	65.4	23.6
Total operating expenses	$ 354.8	$ 243.9	$ 207.1	$ 167.0	$ 51.6	$ 50.4	$ 96.1	$ 26.5

Operating expenses increased $110.9 million, or 45.5%, and increased 160 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 $40.1 million, or 24.0%, and decreased 330 basis points as a percentage of net sales. The increase in operating expenses was primarily driven by advertising and variable compensation costs.

- *International* operating expenses increased $1.2 million, or 2.4%, and decreased 320 basis points as a percentage of net sales. The increase in operating expenses was due to variable compensation costs and increased advertising investments.

- *Corporate* operating expenses increased $69.6 million, or 262.6%. The increase in operating expenses was primarily driven by $45.2 million of amortization for our long-term aspirational plan stock-based compensation. The amount recognized represents the cumulative catch-up adjustment for the long-term aspirational awards which became probable of vesting during the third quarter of 2020. The awards are subject to a remaining service vesting condition which will lapse in December 2020. Additionally, we expect to reach the maximum payout for our 2020 annual incentive and performance-based stock compensation plans, which increased operating expense in the third quarter of 2020. We will record additional amortization related to these compensation plans and the aspirational plan in the fourth quarter of 2020. For information regarding our aspirational plan refer to Note 9, "Stock-Based Compensation," of the "Notes to Condensed Consolidated Financial Statements," under Part I, ITEM 1, "Financial Statements" of this Report.

Research and development expenses for the three months ended September 30, 2020 were $6.1 million compared to $5.6 million for the three months ended September 30, 2019, a increase of $0.5 million, or 8.9%.

OPERATING INCOME

(in millions, except percentages)	Three Months Ended September 30, 2020 Operating Income	2020 Operating Margin	2019 Operating Income	2019 Operating Margin	Margin Change
North America	$ 231.5	23.7 %	$ 119.8	17.6 %	6.1 %
International	44.8	28.8 %	27.3	19.6 %	9.2 %
	276.3		147.1		
Corporate expenses	(96.1)		(26.5)		
Total operating income	$ 180.2	15.9 %	$ 120.6	14.7 %	1.2 %

Operating income increased $59.6 million and operating margin improved 120 basis points. The primary drivers of changes in operating income and operating margin by segment are discussed below:

- *North America* operating income increased $111.7 million and operating margin improved 610 basis points. The improvement in operating margin was primarily driven by improved operating expense leverage of 330 basis points and the improvement in gross margin of 280 basis points.

- *International* operating income increased $17.5 million and operating margin improved 920 basis points. The improvement in operating margin was primarily driven by the improvement in gross margin of 570 basis points and improved operating expense leverage of 320 basis points.

- *Corporate* operating expenses increased $69.6 million, which negatively impacted our consolidated operating margin by 610 basis points. The increase in operating expenses was primarily driven by $45.2 million of amortization for our long-term aspirational plan stock-based compensation. The amount recognized represents the cumulative catch-up adjustment for the long-term aspirational awards which became probable of vesting during the third quarter of 2020. The awards are subject to a remaining service vesting condition which will lapse in December 2020. Additionally, we expect to reach the maximum payout for our 2020 annual incentive and performance-based stock compensation plans, which increased operating expense in the third quarter of 2020. We will record additional amortization related to these compensation plans and the aspirational plan in the fourth quarter of 2020. For information regarding our aspirational plan refer to Note 9, "Stock-Based Compensation," of the "Notes to Condensed Consolidated Financial Statements," under Part I, ITEM 1, "Financial Statements" of this Report.

INTEREST EXPENSE, NET

(in millions, except percentages)	Three Months Ended September 30, 2020	2019	% Change
Interest expense, net	$ 20.1	$ 20.8	(3.4)%

Interest expense, net, decreased $0.7 million, or 3.4%. The decrease in interest expense, net, was primarily driven by reduced average levels of outstanding debt and lower interest rates on our variable rate debt.

INCOME TAX PROVISION

(in millions, except percentages)	Three Months Ended September 30, 2020	2019	% Change
Income tax provision	$ 40.3	$ 26.1	54.4 %
Effective tax rate	25.2 %	26.5 %	

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

Our income tax provision increased $14.2 million due to an increase in income before income taxes. Our effective tax rate for the three months ended September 30, 2020 as compared to the same prior year period decreased by 130 basis points. The effective tax rate as compared to the U.S. federal statutory tax rate for the three months ended September 30, 2020 and 2019 included a net favorable impact of discrete items.

NINE MONTHS ENDED SEPTEMBER 30, 2020 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 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:

	Nine Months Ended September 30,			
(in millions, except percentages and per share amounts)	2020		2019	
Net sales	$ 2,619.9	100.0 %	$ 2,234.7	100.0 %
Cost of sales	1,466.7	56.0	1,278.9	57.2
Gross profit	1,153.2	44.0	955.8	42.8
Selling and marketing expenses	535.8	20.5	485.4	21.7
General, administrative and other expenses	288.1	11.0	218.7	9.8
Equity income in earnings of unconsolidated affiliates	(9.6)	(0.4)	(10.4)	(0.5)
Operating income	338.9	12.9	262.1	11.7
Other expense, net:				
Interest expense, net	61.0	2.3	65.7	2.9
Loss on extinguishment of debt	0.9	—	—	—
Other expense (income), net	0.3	—	(6.5)	(0.3)
Total other expense, net	62.2	2.4	59.2	2.6
Income from continuing operations before income taxes	276.7	10.6	202.9	9.1
Income tax provision	(73.2)	(2.8)	(58.8)	(2.6)
Income from continuing operations	203.5	7.8	144.1	6.4
Income (loss) from discontinued operations, net of tax	1.3	—	(0.8)	—
Net income before non-controlling interests	204.8	7.8	143.3	6.4
Less: Net income attributable to non-controlling interests	0.7	—	—	—
Net income attributable to Tempur Sealy International, Inc.	$ 204.1	7.8 %	$ 143.3	6.4 %
Earnings per common share:				
Basic				
Earnings per share for continuing operations	$ 3.89		$ 2.63	
Earnings (loss) per share for discontinued operations	0.02		(0.01)	
Earnings per share	$ 3.91		$ 2.62	
Diluted				
Earnings per share for continuing operations	$ 3.83		$ 2.57	
Earnings (loss) per share for discontinued operations	0.03		(0.01)	
Earnings per share	$ 3.86		$ 2.56	
Weighted average common shares outstanding:				
Basic	52.2		54.7	
Diluted	52.9		56.0	

NET SALES

	Nine Months Ended September 30,					
	2020	2019	2020	2019	2020	2019
(in millions)	Consolidated		North America		International	
Net sales by channel						
Wholesale	$ 2,273.3	$ 1,958.2	$ 1,973.3	$ 1,632.5	$ 300.0	$ 325.7
Direct	346.6	276.5	250.9	181.6	95.7	94.9
Total net sales	$ 2,619.9	$ 2,234.7	$ 2,224.2	$ 1,814.1	$ 395.7	$ 420.6

Net sales increased 17.2%, and on a constant currency basis increased 17.6%. The change in net sales was driven by the following:

- *North America* net sales increased $410.1 million, or 22.6%. Net sales in the Wholesale channel increased $340.8 million, or 20.9%, primarily driven by broad-based demand across both existing and new distribution. Net sales in the Direct channel increased $69.3 million, or 38.2%, primarily driven by growth from our e-commerce business.

- *International* net sales decreased $24.9 million, or 5.9%. On a constant currency basis, International net sales decreased 4.6% as a result of the global pandemic. Net sales in the Wholesale channel decreased 6.1% on a constant currency basis. Net sales in the Direct channel increased 0.7% on a constant currency basis.

GROSS PROFIT

	Nine Months Ended September 30,				
	2020		2019		
(in millions, except percentages)	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Margin Change
North America	$ 932.0	41.9 %	$ 731.2	40.3 %	1.6 %
International	221.2	55.9 %	224.6	53.4 %	2.5 %
Consolidated gross margin	$ 1,153.2	44.0 %	$ 955.8	42.8 %	1.2 %

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

- *North America* gross margin improved 160 basis points. The improvement in gross margin was primarily driven by fixed cost leverage and productivity on higher unit volume of 190 basis points, decreased floor model expenses of 70 basis points and lower commodity costs of 70 basis points. These improvements were partially offset by unfavorable product and brand mix of 170 basis points. Additionally, we incurred $4.0 million of incremental costs related to global pandemic relief efforts, sanitation supplies and services and other items and $0.6 million of operational expansion costs related to the opening of a Sealy manufacturing facility, which partially offset the improvement in gross margin.

- *International* gross margin improved 250 basis points. The improvement in gross margin was primarily driven by favorable mix of 110 basis points, fixed cost leverage and productivity on higher unit volumes of 60 basis points and lower commodity costs. 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.

	Nine Months Ended September 30,							
	2020	2019	2020	2019	2020	2019	2020	2019
(in millions)	Consolidated		North America		International		Corporate	
Operating expenses:								
Advertising expenses	$ 229.8	$ 203.0	$ 204.7	$ 174.6	$ 25.1	$ 28.4	$ —	$ —
Other selling and marketing expenses	306.0	282.4	182.6	180.6	86.6	93.4	36.8	8.4
General, administrative and other expenses	288.1	218.7	142.4	111.8	38.1	33.3	107.6	73.6
Total operating expenses	$ 823.9	$ 704.1	$ 529.7	$ 467.0	$ 149.8	$ 155.1	$ 144.4	$ 82.0

Operating expenses increased $119.8 million, or 17.0%, and decreased 10 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 $62.7 million, or 13.4%, and decreased 190 basis points as a percentage of net sales. The increase in operating expenses was primarily driven by advertising and incremental bad debt expense primarily related to the bankruptcy of one department store in the U.S. Additionally, 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 and $7.0 million of asset impairment charges related to the write-off of certain sales and marketing assets driven by the macro-economic environment.

- *International* operating expenses decreased $5.3 million, or 3.4%, and increased 100 basis points as a percentage of net sales. The decrease in operating expenses was primarily driven by lower advertising and other selling and marketing investments, partially offset by increased bad debt expense. Additionally, we incurred $3.8 million of restructuring costs associated with headcount reductions driven by the macro-economic environment and $2.6 million of incremental costs related to global pandemic relief efforts, sanitation supplies and services and other items.

- *Corporate* operating expenses increased $62.4 million, or 76.1%. The increase in operating expenses was primarily driven by $45.2 million of amortization for our long-term aspirational plan stock-based compensation. The amount recognized represents the cumulative catch-up adjustment for the long-term aspirational awards which became probable of vesting during the third quarter of 2020. The awards are subject to a remaining service vesting condition which will lapse in December 2020. Additionally, we expect to reach the maximum payout for our 2020 annual incentive and performance-based stock compensation plans, which increased operating expense in the third quarter of 2020. We will record additional amortization related to these compensation plans and the aspirational plan in the fourth quarter of 2020. This increase was partially offset by $4.1 million of professional fees recorded in the first half of 2019 related to the acquisition of Sleep Outfitters, which were not repeated in 2020. For information regarding our aspirational plan refer to Note 9, "Stock-Based Compensation," of the "Notes to Condensed Consolidated Financial Statements," under Part I, ITEM 1, "Financial Statements" of this Report.

Research and development expenses were $17.1 million for the nine months ended September 30, 2020 as compared to $16.8 million for the nine months ended September 30, 2019.

OPERATING INCOME

	Nine Months Ended September 30,				
	2020		2019		
(in millions, except percentages)	Operating Income	Operating Margin	Operating Income	Operating Margin	Margin Change
North America	$ 402.3	18.1 %	$ 264.2	14.6 %	3.5 %
International	81.0	20.5 %	79.9	19.0 %	1.5 %
	483.3		344.1		
Corporate expenses	(144.4)		(82.0)		
Total operating income	$ 338.9	12.9 %	$ 262.1	11.7 %	1.2 %

Operating income increased $76.8 million and operating margin improved 120 basis points. The primary drivers of changes in operating income and operating margin by segment are discussed below:

- *North America* operating income increased $138.1 million and operating margin improved 350 basis points. The improvement in operating margin was primarily driven by improved operating expense leverage of 310 basis points and the improvement in gross margin of 160 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 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 increased $1.1 million and operating margin improved 150 basis points. The improvement in operating margin was primarily driven by the improvement in gross margin of 250 basis points and improved operating expense leverage. These improvements were offset by $3.8 million of restructuring costs associated with headcount reductions driven by the macro-economic environment and $3.1 million of incremental costs related to global pandemic relief efforts, sanitation supplies and services and other items.

- *Corporate* operating expenses increased $62.4 million, which negatively impacted our consolidated operating margin by 240 basis points. The increase in operating expenses was primarily driven by $45.2 million of amortization for our long-term aspirational plan stock-based compensation. The amount recognized represents the cumulative catch-up adjustment for the long-term aspirational awards which became probable of vesting during the third quarter of 2020. The awards are subject to a remaining service vesting condition which will lapse in December 2020. Additionally, we expect to reach the maximum payout for our 2020 annual incentive and performance-based stock compensation plans, which increased operating expense in the third quarter of 2020. We will record additional amortization related to these compensation plans and the aspirational plan in the fourth quarter of 2020. This increase was partially offset by $4.1 million of professional fees recorded in the first half of 2019 related to the acquisition of Sleep Outfitters, which were not repeated in 2020. For information regarding our aspirational plan refer to Note 9, "Stock-Based Compensation," of the "Notes to Condensed Consolidated Financial Statements," under Part I, ITEM 1, "Financial Statements" of this Report.

INTEREST EXPENSE, NET

	Nine Months Ended September 30,		
(in millions, except percentages)	2020	2019	% Change
Interest expense, net	$ 61.0	$ 65.7	(7.2)%

Interest expense, net, decreased $4.7 million, or 7.2%. The decrease in interest expense, net, was primarily driven by reduced average levels of outstanding debt and lower interest rates on our variable rate debt.

INCOME TAX PROVISION

	Nine Months Ended September 30,		
(in millions, except percentages)	2020	2019	% Change
Income tax provision	$ 73.2	$ 58.8	24.5 %
Effective tax rate	26.5 %	29.0 %	

Our income tax provision increased $14.4 million due to an increase in income before income taxes. Our effective tax rate for the nine months ended September 30, 2020 as compared to the same prior year period decreased 250 basis points. The effective tax rate as compared to the U.S. federal statutory rate for the nine months ended September 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 nine months ended September 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 September 30, 2020, we had net working capital of $121.4 million, including cash and cash equivalents of $229.2 million, as compared to $126.9 million, including cash and cash equivalents of $64.9 million, as of December 31, 2019.

At September 30, 2020, total cash and cash equivalents were $229.2 million, of which $186.3 million was held in the U.S. and $42.9 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.

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:

	Nine Months Ended September 30,	
(in millions)	**2020**	**2019**
Net cash provided by (used in) continuing operations:		
Operating activities	$ 497.9	$ 201.7
Investing activities	(111.4)	(64.0)
Financing activities	(228.5)	(124.8)

Cash provided by operating activities from continuing operations increased $296.2 million in the nine months ended September 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 $47.4 million in the nine months ended September 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 used in financing activities from continuing operations increased $103.7 million in the nine months ended September 30, 2020 as compared to the same period in 2019. For the nine months ended September 30, 2020, we had net repayments of $21.0 million on our credit facilities, as compared to net repayments of $76.0 million in 2019. During the nine months ended September 30, 2020 and 2019, respectively, we repurchased $187.5 million and $52.3 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 $12.1 million and $3.2 million of our common stock which was withheld to satisfy tax withholding obligations related to stock compensation during the nine months ended September 30, 2020 and 2019, respectively.

Cash Provided by (Used in) Discontinued Operations

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

Capital Expenditures

Capital expenditures totaled $73.6 million and $61.9 million for the nine months ended September 30, 2020 and 2019, respectively. We currently expect our 2020 capital expenditures to be approximately $110 to $115 million, which includes investments in our U.S. enterprise resource planning projects and domestic manufacturing facilities.

Indebtedness

Our total debt decreased to $1,535.3 million as of September 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. As a result, we entered into a new $200.0 million 364-day term loan (the "364-Day Loan") in the second quarter of 2020. As industry trends improved in the third quarter of 2020, we generated record operating cash flow which allowed us to repay the 364-Day Loan referred to below. Total availability under our revolving senior secured credit facility was $424.9 million as of September 30, 2020, which matures in 2024.

As of September 30, 2020, our ratio of consolidated indebtedness less netted cash to adjusted EBITDA per credit facility, which is a non-GAAP financial measure, in accordance with our 2019 Credit Agreement was 1.92 times. Our leverage ratio as of September 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 September 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 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 per credit facility, 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 per credit facility 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.

On May 13, 2020, we entered into an amendment to the existing 2019 Credit Agreement, which provided for the $200.0 million 364-Day Loan. We 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. On September 14, 2020, we repaid the 364-Day Loan. Repayment of the 364-Day Loan lifted certain restrictions on dividends, share repurchases and our ability to make certain investments.

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, 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)		**Nine Months Ended September 30, 2020 Obligor Group**
Net sales to unrelated parties	$	2,089.1
Net sales to non-obligor subsidiaries	$	43.8
Gross profit	$	908.8
Income from continuing operations	$	147.1
Net income attributable to Tempur Sealy International, Inc.	$	146.4

(in millions)	Obligor Group September 30, 2020	Obligor Group December 31, 2019
ASSETS		
Receivables due from non-obligor subsidiaries	$ 17.4	$ 9.6
Other current assets	528.2	314.6
Total current assets	545.6	324.2
Loan receivable from non-obligor subsidiaries	250.0	310.1
Goodwill and other intangible assets, net	1,096.0	1,075.5
Other non-current assets	738.7	624.6
Total non-current assets	2,084.7	2,010.2
LIABILITIES		
Payables due to non-obligor subsidiaries	18.4	11.4
Other current liabilities	650.7	490.5
Total current liabilities	669.1	501.9
Loan payable to non-obligor subsidiaries	23.8	8.3
Other non-current liabilities	1,892.6	1,832.8
Total non-current liabilities	$ 1,916.4	$ 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 nine months ended September 30, 2020, we repurchased 2.6 million shares for approximately $187.5 million. As of September 30, 2020, we had approximately $131.3 million remaining under our existing share repurchase authorization. In October 2020, the Board of Directors authorized an additional increase, of $168.7 million, to the existing 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.

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 was outstanding. These limitations were lifted upon repayment of the 364-Day Loan in the third quarter of 2020. In the near term, subject to market conditions, we expect to repurchase at least 3% of shares outstanding per year. We will manage our share repurchase program based on current and expected cash flows, share price and alternative investment opportunities. 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 September 30, 2020, we had $737.7 million of liquidity, including $229.2 million of cash on hand and $424.9 million available under our revolving senior secured credit facility. We also had availability of $83.6 million under our securitization facility. In addition, we expect to generate additional cash flow from operations in the fourth quarter 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.

Operating cash flow and liquidity exceeded our expectations in 2020. As a result, we have developed a new capital allocation plan to drive shareholder value over time. Our plan is focused on the following:

- Invest approximately $70 million annually for capital expenditures to invest in our people, products and processes.
- Initiate a quarterly cash dividend beginning in early 2021, subject to approval by the Board of Directors, targeting an annual distribution to our stockholders of approximately 15% of net income.
- Resume our share repurchase program and target to repurchase at least 3% of shares outstanding per year in the near-term, depending on market conditions.
- Evaluate acquisition opportunities with a focus on strategic acquisitions similar to those we have completed over the past few years.
- Execute a four-for-one stock split, which will be effected through a stock dividend in the fourth quarter of 2020, to make our common stock more accessible and improve trading liquidity.

As of September 30, 2020, we had $1,535.3 million in total debt outstanding and consolidated indebtedness less netted cash, which is a non-GAAP financial measure, of $1,335.3 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 1.92 times for the trailing twelve months ended September 30, 2020, the lowest in our history. Our target range for our ratio of consolidated indebtedness less netted cash, which is a non-GAAP financial measure, is 2.0 to 3.0 times. Total cash interest payments related to our borrowings are expected to be approximately $75 to $80 million in 2020.

On October 8, 2020, we announced our election to conditionally redeem $200.0 million of our $450.0 million of our issued and outstanding 2023 Senior Notes on November 9, 2020 (the "Redemption Date"). The 2023 Senior Notes selected for redemption will be redeemed at 101.406% of their principal amount, plus the accrued and unpaid interest. The redemption is conditioned on the determination by our Chief Financial Officer, in his sole discretion, as of the second business day before the Redemption Date, that the redemption continues to be reasonably prudent and consistent with our objectives concerning liquidity, financing needs and funding costs.

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 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 September 30, 2020 and 2019:

	Three Months Ended	
(in millions, except per share amounts)	September 30, 2020	September 30, 2019
Net income	$ 121.4	$ 73.3
Income from discontinued operations, net of tax [(1)]	(2.4)	(0.8)
Aspirational plan amortization [(2)]	45.2	—
Loss on extinguishment of debt [(3)]	0.9	—
Accounting standard adoption [(4)]	0.8	—
Facility expansion costs [(5)]	0.6	—
Restructuring costs [(6)]	0.4	—
Tax adjustments [(7)]	(11.5)	—
Adjusted net income	$ 155.4	$ 72.5
Adjusted earnings per share, diluted	$ 2.94	$ 1.30
Diluted shares outstanding	52.9	55.8

(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 third quarter of 2020, we recognized $45.2 million of performance-based stock compensation amortization related to our long-term aspirational awards. The amount recognized represents the cumulative catch-up adjustment for the long-term aspirational awards that became probable of vesting during the third quarter of 2020. The awards are subject to a remaining service vesting condition which will lapse in December 2020.

(3) In the third quarter of 2020, loss on extinguishment of debt represents costs associated with the early repayment of the 364-Day Loan.

(4) In the third quarter of 2020, we recorded $0.8 million of charges related to the adoption of ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)". 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 third quarter of 2020, we recorded $0.6 million of costs related to the opening of a Sealy manufacturing facility.

(6) We incurred $0.4 million of restructuring costs associated with International headcount reductions driven by the macro-economic environment, in the third quarter of 2020.

(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 September 30, 2020.

	Three Months Ended September 30, 2020						
(in millions, except percentages)	Consolidated	Margin	North America	Margin	International	Margin	Corporate
Net sales	$ 1,132.3		$ 976.5		$ 155.8		$ —
Gross profit	$ 530.2	46.8 %	$ 438.6	44.9 %	$ 91.6	58.8 %	$ —
Adjustments:							
Facility expansion costs [(1)]	0.6		0.6		—		—
Adjusted gross profit	$ 530.8	46.9 %	$ 439.2	45.0 %	$ 91.6	58.8 %	$ —
Operating income (expense)	$ 180.2	15.9 %	$ 231.5	23.7 %	$ 44.8	28.8 %	$ (96.1)
Adjustments:							
Aspirational plan amortization [(2)]	45.2		—		—		45.2
Accounting standard adoption [(3)]	0.8		0.8		—		—
Facility expansion costs [(1)]	0.6		0.6		—		—
Restructuring costs [(4)]	0.4		—		0.4		—
Total adjustments	47.0		1.4		0.4		45.2
Adjusted operating income (expense)	$ 227.2	20.1 %	$ 232.9	23.9 %	$ 45.2	29.0 %	$ (50.9)

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

	Three Months Ended September 30, 2019						
(in millions, except percentages)	Consolidated	Margin	North America	Margin	International	Margin	Corporate
Net sales	$ 821.0		$ 682.0		$ 139.0		$ —
Gross profit	$ 360.6	43.9 %	$ 286.8	42.1 %	$ 73.8	53.1 %	$ —
Operating income (expense)	$ 120.6	14.7 %	$ 119.8	17.6 %	$ 27.3	19.6 %	$ (26.5)

(1) In the third quarter of 2020, we recorded $0.6 million of costs related to the opening of a Sealy manufacturing facility.

(2) In the third quarter of 2020, we recognized $45.2 million of performance-based stock compensation amortization related to our long-term aspirational awards. The amount recognized represents the cumulative catch-up adjustment for the long-term aspirational awards that became probable of vesting during the third quarter of 2020. The awards are subject to a remaining service vesting condition which will lapse in December 2020.

(3) In the third quarter of 2020, we recorded $0.8 million of charges related to the adoption of ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)". As permitted by the 2019 Credit Agreement, we elected to eliminate the effect of this accounting change within our covenant compliance calculation.

(4) We incurred $0.4 million of restructuring costs associated with International headcount reductions driven by the macro-economic environment, in the third quarter of 2020.

EBITDA, Adjusted EBITDA per Credit Facility and Consolidated Indebtedness less Netted Cash

The following reconciliations are provided below:

- Net income to EBITDA 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"). 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 per credit facility for the three months ended September 30, 2020 and 2019:

	Three Months Ended	
(in millions)	**September 30, 2020**	**September 30, 2019**
Net income	$ 121.4	$ 73.3
Interest expense, net	20.1	20.8
Loss on extinguishment of debt [1]	0.9	—
Income taxes	40.3	26.1
Depreciation and amortization	52.0	30.5
Aspirational plan amortization [2]	45.2	—
EBITDA	$ 279.9	$ 150.7
Adjustments:		
Income from discontinued operations, net of tax [3]	(2.4)	(0.8)
Accounting standard adoption [4]	0.8	—
Facility expansion costs [5]	0.6	—
Restructuring costs [6]	0.4	—
Adjusted EBITDA per credit facility	$ 279.3	$ 149.9

(1) In the third quarter of 2020, loss on extinguishment of debt represents costs associated with the early repayment of the 364-Day Loan.

(2) In the third quarter of 2020, we recognized $45.2 million of performance-based stock compensation amortization related to our long-term aspirational awards. The amount recognized represents the cumulative catch-up adjustment for the long-term aspirational awards that became probable of vesting during the third quarter of 2020. The awards are subject to a remaining service vesting condition which will lapse in December 2020.

(3) 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.

(4) In the third quarter of 2020, we recorded $0.8 million of charges related to the adoption of ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)". 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 third quarter of 2020, we recorded $0.6 million of costs related to the opening of a Sealy manufacturing facility.

(6) We incurred $0.4 million of restructuring costs associated with International headcount reductions driven by the macro-economic environment, in the third quarter of 2020.

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 September 30, 2020:

(in millions)	**Trailing Twelve Months Ended September 30, 2020**
Net income	$ 250.3
Interest expense, net	81.0
Loss on extinguishment of debt (1)	0.9
Income tax provision	89.1
Depreciation and amortization	145.5
Aspirational plan amortization (2)	45.2
EBITDA	$ 612.0
Adjustments:	
Income from discontinued operations, net of tax (3)	(0.7)
Customer-related charges (4)	41.5
Charitable stock donation and other (5)	9.6
COVID-19 charges (6)	7.9
Incremental operating costs (7)	7.2
Asset impairments (8)	7.0
Restructuring costs (9)	3.8
Accounting standard adoption (10)	3.6
Earnings from Sherwood prior to acquisition (11)	1.7
Facility expansion costs (12)	0.6
Adjusted EBITDA per credit facility	$ 694.2
Consolidated indebtedness less netted cash	$ 1,335.3
Ratio of consolidated indebtedness less netted cash to adjusted EBITDA per credit facility	1.92 times

(1) In the third quarter of 2020, loss on extinguishment of debt represents costs associated with the early repayment of the 364-Day Loan.

(2) In the third quarter of 2020, we recognized $45.2 million of performance-based stock compensation amortization related to our long-term aspirational awards. The amount recognized represents the cumulative catch-up adjustment for the long-term aspirational awards that became probable of vesting during the third quarter of 2020. The awards are subject to a remaining service vesting condition through December 2020.

(3) 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.

(4) 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.

(5) In 2019, we recorded a $9.6 million charge for charitable stock donation and other costs. These costs included an $8.9 million charge related to the donation of common stock at fair market value to certain public charities and $0.7 million of professional fees in connection with the amendment of the 2019 Credit Agreement.

(6) In the second quarter of 2020, 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.

(7) In the second quarter of 2020, we recorded $4.9 million of incremental operating costs associated with the global pandemic. In the first quarter of 2020, we recorded $2.3 million of charges related to the global pandemic.

(8) 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 macro-economic environment.

(9) We incurred $0.4 million and $3.4 million of restructuring costs associated with International headcount reductions driven by the macro-economic environment, in the third and second quarter of 2020, respectively.

(10) In the third quarter of 2020, we recorded $0.8 million of charges related to the adoption of ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)". In the first half of 2020, we recorded $2.8 million of charges related to the adoption. As permitted by the 2019 Credit Agreement, we elected to eliminate the effect of this accounting change within our covenant compliance calculation.

(11) 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 $1.7 million of EBITDA from this subsidiary for the four months prior to acquisition in our calculation of adjusted EBITDA per credit facility for the trailing twelve months ended September 30, 2020.

(12) In the third quarter of 2020, we recorded $0.6 million of costs related to the opening of a Sealy manufacturing facility.

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 September 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 1.92 times for the trailing twelve months ended September 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 September 30, 2020. "Consolidated Indebtedness" and "Netted Cash" are terms used in the 2019 Credit Agreement for purposes of certain financial covenants.

(in millions)	September 30, 2020
Total debt, net	$ 1,530.0
Plus: Deferred financing costs (1)	5.3
Consolidated indebtedness	1,535.3
Less: Netted cash (2)	200.0
Consolidated indebtedness less netted cash	$ 1,335.3

(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. For purposes of determining netted cash for financial covenant purposes under the 2019 Credit Agreement, the aggregate amount of netted cash is not permitted to exceed $200.0 million.

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 positively impacted our adjusted EBITDA per credit facility, which is a non-GAAP financial measure, by 0.1% in the three months ended September 30, 2020 and negatively impacted our adjusted EBITDA per credit facility, which is a non-GAAP financial measure, by 0.1% in the nine months ended September 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 September 30, 2020, resulting from a hypothetical 10.0% adverse change in all foreign currency exchange rates against the U.S. dollar, is approximately $1.6 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 September 30, 2020, we had variable-rate debt of approximately $412.2 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 $4.1 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 September 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.

Although we recently announced our intention to initiate a quarterly cash dividend beginning in 2021, there can be no assurance as to the declaration or amount of future dividends.

We recently announced our intention to begin paying a quarterly cash dividend beginning in 2021. Any decision to declare and pay dividends, and the amount of any such dividends, will be dependent on a variety of factors, including compliance with Section 170 of the Delaware General Corporation Law; changes to our capital allocation policies; our results of operation, liquidity and cash flows; contractual restrictions in our debt agreements; economic conditions, including the impact of COVID-19 on our business and financial condition; and other factors the Board of Directors may deem relevant. There can be no assurance that we will declare dividends in any particular amounts or at all, and changes in our dividend policy could adversely affect the market price for our stock.

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

(a) Not applicable.

(b) Not applicable.

(c) Issuer Purchases of Equity Securities

The following table sets forth purchases of our common stock for the three months ended September 30, 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)*
July 1, 2020 - July 31, 2020	—	(1)	$—	—	$131.3
August 1, 2020 - August 31, 2020	—	(1)	$—	—	$131.3
September 1, 2020 - September 30, 2020	1,919	(1)	$82.69	—	$131.3
Total	1,919			—	

(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:

3.1	Certificate of Elimination of Second Amended and Restated Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of Tempur Sealy International, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K as filed on September 14, 2020)
4.1	Third Supplemental Indenture, dated as of October 14, 2020, by and among Tempur Sealy International, Inc., the guarantor party thereto and The Bank of New York Mellon Trust Company, N.A., as trustee re 5.625% Senior Notes due 2023
4.2	Third Supplemental Indenture, dated as of October 14, 2020, by and among Tempur Sealy International, Inc., the guarantor party thereto and The Bank of New York Mellon Trust Company, N.A., as trustee re 5.500% Senior Notes due 2026
10.1	2020 Non-Employee Director Compensation Plan.(1)
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 September 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 September 30, 2020, formatted in Inline XBRL.

(1) Indicates management contract or compensatory plan or arrangement.

* 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: November 5, 2020	By:	/s/ BHASKAR RAO
		Bhaskar Rao
		Executive Vice President and Chief Financial Officer

Exhibit 4.1

THIRD SUPPLEMENTAL INDENTURE

dated as of October 14, 2020

among

TEMPUR SEALY INTERNATIONAL, INC.,

The Guarantor Party Hereto and

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee

5.625% Senior Notes due 2023

THIS THIRD SUPPLEMENTAL INDENTURE (this "**Supplemental Indenture**"), entered into as of October 14, 2020, among TEMPUR SEALY INTERNATIONAL, INC., a Delaware corporation (the "**Company**"), SHERWOOD NORTHEAST, LLC, a Delaware limited liability company (the "**Undersigned**") and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as trustee (the "**Trustee**").

RECITALS

WHEREAS, the Company, the Guarantors party thereto and the Trustee entered into an Indenture, dated as of September 24, 2015 (the "**Indenture**"), relating to the Company's 5.625% Senior Notes due 2023 (the "**Notes**");

WHEREAS, as a condition to the Trustee entering into the Indenture and the purchase of the Notes by the Holders, the Company agreed pursuant to the Indenture to cause any Domestic Restricted Subsidiary that guarantees or becomes an obligor under the Company's Credit Agreement following the Issue Date to provide Note Guaranties.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained and intending to be legally bound, the parties to this Supplemental Indenture hereby agree as follows:

Section 1. Capitalized terms used herein and not otherwise defined herein are used as defined in the Indenture.

Section 2. The Undersigned, by its execution of this Supplemental Indenture, agrees to be a Guarantor under the Indenture and to be bound by the terms of the Indenture applicable to Guarantors, including, but not limited to, Article 10 thereof.

Section 3. This Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 4. This Supplemental Indenture may be signed in various counterparts which together will constitute one and the same instrument.

Section 5. This Supplemental Indenture is an amendment supplemental to the Indenture, and the Indenture and this Supplemental Indenture will henceforth be read together.

Section 6. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or the Guarantees provided by the Guarantor party to this Supplemental Indenture.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed as of the date first above written.

TEMPUR SEALY INTERNATIONAL, INC.,
as Issuer

By: /s/ James M. Schockett
Name: James M. Schocket
Title: Vice President, Treasurer an
Assistant Secretary

SHERWOOD NORTHEAST, LLC,
as Guarantor

By: /s/ James M. Schockett
Name: James M. Schocket
Title: Vice President, Treasurer an
Assistant Secretary

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: /s/ Valere Boyd
Name: Valere Boyd
Title: Vice President

Exhibit 4.2

THIRD SUPPLEMENTAL INDENTURE

dated as of October 14, 2020

among

TEMPUR SEALY INTERNATIONAL, INC.,

The Guarantor Party Hereto and

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee

5.500% Senior Notes due 2026

THIS THIRD SUPPLEMENTAL INDENTURE (this "**Supplemental Indenture**"), entered into as of October 14, 2020, among TEMPUR SEALY INTERNATIONAL, INC., a Delaware corporation (the "**Company**"), SHERWOOD NORTHEAST, LLC, a Delaware limited liability company (the "**Undersigned**") and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as trustee (the "**Trustee**").

RECITALS

WHEREAS, the Company, the Guarantors party thereto and the Trustee entered into an Indenture, dated as of May 24, 2016 (the "**Indenture**"), relating to the Company's 5.500% Senior Notes due 2026 (the "**Notes**");

WHEREAS, as a condition to the Trustee entering into the Indenture and the purchase of the Notes by the Holders, the Company agreed pursuant to the Indenture to cause any Domestic Restricted Subsidiary that guarantees or becomes an obligor under the Company's Credit Agreement following the Issue Date to provide Note Guaranties.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained and intending to be legally bound, the parties to this Supplemental Indenture hereby agree as follows:

Section 1. Capitalized terms used herein and not otherwise defined herein are used as defined in the Indenture.

Section 2. The Undersigned, by its execution of this Supplemental Indenture, agrees to be a Guarantor under the Indenture and to be bound by the terms of the Indenture applicable to Guarantors, including, but not limited to, Article 10 thereof.

Section 3. This Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 4. This Supplemental Indenture may be signed in various counterparts which together will constitute one and the same instrument.

Section 5. This Supplemental Indenture is an amendment supplemental to the Indenture, and the Indenture and this Supplemental Indenture will henceforth be read together.

Section 6. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or the Guarantees provided by the Guarantor party to this Supplemental Indenture.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed as of the date first above written.

TEMPUR SEALY INTERNATIONAL, INC.,
as Issuer

By: /s/ James M. Schockett

Name: James M. Schocket
Title: Vice President, Treasurer an
Assistant Secretary

SHERWOOD NORTHEAST, LLC,
as Guarantor

By: /s/ James M. Schockett

Name: James M. Schocket
Title: Vice President, Treasurer an
Assistant Secretary

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: /s/ Valere Boyd

Name: Valere Boyd

Title: Vice President

Exhibit 10.1

As Adopted August 11, 2020

TEMPUR SEALY INTERNATIONAL, INC.
2020 NON-EMPLOYEE DIRECTOR COMPENSATION PLAN

EFFECTIVE AUGUST 11, 2020

1. Purpose; Effective Date; Sub-Plan; Definitions.

a. Purpose. The purpose of the Tempur Sealy International, Inc. 2020 Non-Employee Director Compensation Plan (the "Plan") is to promote the interests of Tempur Sealy International, Inc. (the "Company") and its stockholders by strengthening the Company's ability to attract, motivate and retain directors of experience and ability, and to encourage the highest level of director performance by providing directors with (i) a proprietary interest in the Company's financial success and growth through the ability to elect to receive compensation in shares of Company's common stock, $0.01 par value per share ("Common Stock") and (ii) the ability to defer compensation.

b. Effective Date. This Plan is effective as of August 11, 2020 (the "Effective Date").

c. Relationship to 2013 Equity Incentive Plan. From the Effective Date, this Plan is maintained under the Company's 2013 Equity Incentive Plan, as amended from time to time (the "2013 EIP"), and any shares of Common Stock to be delivered pursuant to this Plan shall be issued under the 2013 EIP.

d. Definitions. Capitalized terms used but not defined herein shall have the meaning assigned under the 2013 EIP. As used in this Plan, the following terms shall have the following meanings:

i. "*Award Agreement*" shall mean an award agreement under the 2013 EIP in substantially the form attached hereto as Exhibit A, or such other form approved from time to time by the Committee.

ii. "*Board*" shall mean the Board of Directors of the Company.

iii. "*Board Year*" shall mean the term of service for a member of the Board commencing upon election or re-election at the Company's Annual Meeting of Stockholders or upon appointment of a Director during a calendar year, and ending at the next Annual Meeting of Stockholders.

iv. "*Committee*" shall mean the Compensation Committee of the Board.

v. "*Director*" shall mean a non-employee member of the Board.

vi. "*Election Form*" shall mean the election form in substantially the form attached hereto as Exhibit B, or such other form approved from time to time by the Committee.

vii. "*Participant*" shall mean any Director.

viii. "RSUs" shall mean restricted stock units.

ix. "*Separation from Service*" shall mean a Participant's death, retirement or other termination of association with the Company; *provided* that such separation constitutes a separation from service for purposes of Section 409A of the Code.

2. Eligibility. Only Directors shall be eligible to participate in this Plan.

3. Terms and Conditions of Restricted Stock Units. Each RSU granted to a Director for service for an upcoming Board Year or, for a Director appointed during a calendar year, for the balance of the then current Board Year is subject to vesting as set forth in the applicable Award Agreement. Upon vesting, a Director shall be issued the shares of Common Stock to which the Director is entitled, unless the Director has elected to defer receipt as permitted herein.

4. Deferral Election. No later than December 31st of the year prior to the applicable grant date of any RSUs, a Director may irrevocably elect, in accordance with procedures established by the Committee, that all of the shares of Common Stock issuable to the Director upon the vesting of such RSUs shall not be distributed on the vesting date but shall be deferred until the date of the Director's Separation from Service. Election Forms shall not carry over from year to year.

5. Special Rule for Initial Elections. Any Director who first becomes a Director after the Effective Date may make an initial election under *Section 4* with respect to (i) RSUs payable for the Board Year in which he or she becomes a Director and (ii) RSUs payable for a Board Year that begins on or after, but in the same calendar year, as the date he or she becomes a Director. These elections may be made within thirty (30) days after becoming a Director. However, no election under *Section 4* shall be allowed under these timing rules if the Director has been eligible to participate in any other nonqualified deferred compensation plan of the Company or any entity treated as a single employer with the Company under Sections 414(b) or (c) of the Code other than as an employee, which other nonqualified deferred compensation plan is an account balance plan allowing the deferral of compensation at the election of the Director (each, an "Aggregated Plan"). An Aggregated Plan shall not be taken into account for purposes of this *Section 5* after the Director ceased to be eligible to defer compensation thereunder (other than through the accrual of earnings), provided either (i) all amounts due the Director under the Aggregated Plan have been paid to him or her, or (ii) he or she has not been eligible to defer compensation thereunder (other than through the accrual of earnings) for a period of at least twenty-four (24) months.

6. Accounts.

a. Accounts. The Company shall establish on its books an account (an "Account") for each Participant, denominated in RSUs, each representing a conditional right to a share of Common Stock. RSUs granted under an Award Agreement shall be credited to the Participant's Account based on the number of shares of Common Stock specified in the Award Agreement.

b. Vesting of RSUs. RSUs credited to a Participant's Account shall remain subject to a Risk of Forfeiture in accordance with the terms and conditions of the applicable Award Agreement as well as the provisions of *Section 11* below (including any provision for accelerated vesting on certain changes of control pursuant to Section 9 of the 2013 EIP). Notwithstanding any provision of this Plan to the contrary, no Participant or other person shall have any right or claim under this Plan with respect to a RSU credited to the Participant's Account but forfeited in accordance with the terms and conditions of the applicable Award Agreement.

c. Effect of Corporate Transaction on Stock Accounts. If at any time subsequent to the Effective Date, the outstanding shares of Common Stock (or any other securities covered by this Plan by reason of the prior application of this Section) are adjusted, modified, increased, decreased, or exchanged for a different number or kind of shares, securities or other property (including cash), as a result of a merger or consolidation, reorganization, recapitalization, reclassification, or stock dividend, stock split, or reverse stock split, an appropriate and proportionate adjustment will be made in accordance with Section 8 of the 2013 EIP in the number RSUs credited to Accounts under this Plan.

d. Statement of Account. At the end of each Board Year, and at such other date or dates during a year as the Company may determine, the Company shall issue or shall cause to be issued to each Participant a statement setting forth the balance of the Participant's Account under this Plan.

7. Payment of Deferred RSUs.

a. In General. Subject to the balance of *Section 7*, distributions of a Participant's Account of deferred RSUs under this Plan shall be made upon Separation from Service, as provided in *Section 4*.

b. Timing of Distribution to Satisfy Applicable Law. The Committee or Board may delay any distribution from an Account if it reasonably anticipates that the making of the distribution will violate federal securities laws or other applicable laws until the earliest date that the Committee or Board reasonably anticipates that the making of such distribution will not cause such a violation. If advisable to avoid exposing a Participant to a claim for recovery of short swing profits under Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), prior to the payment of the amount reflected in the Participant's Account, such payment must be approved in advance by the Board or a committee comprised solely of "non-employee directors" as defined in Rule 16(b)-3(b)(3) under the Exchange Act.

c. Form of Payments. Distribution of deferred RSUs shall be made in the form of whole shares of Common Stock equal to the number of RSUs credited to the Participant's Account as of the relevant date. Each Participant or beneficiary agrees that prior to any distribution under this Plan, he or she will make such representations and execute such documents as are deemed by the Committee or Board to be necessary to comply with applicable laws.

8. Designation of Beneficiaries; Death. Each Participant shall have the right, at any time, to designate any person or persons as the Participant's beneficiary or beneficiaries (both primary as well as secondary) to whom shares in respect of RSUs under this Plan shall be delivered in the event of the Participant's death prior to complete distribution of the benefits due under this Plan. Each beneficiary designation shall be in written form prescribed by the Company and will be effective only if filed with the Company during the Participant's lifetime. Such designation may be changed by the Participant at any time without the consent of a beneficiary. If no designated beneficiary survives the Participant, the balance of the Participant's shares in respect of vested RSUs shall be delivered to the Participant's surviving spouse or, if no spouse survives, to the Participant's estate. Upon the death of a Participant, any shares in respect of RSUs shall be delivered, within forty-five (45) days after the Participant's death, in a single distribution.

9. Administration.

a. Committee Duties. This Plan shall be administered by the Committee, which shall have all of the authority expressly granted to the Committee and the Company under this Plan; *provided, however*, that at any time and on any one or more occasions the Board may itself exercise any of the powers and responsibilities assigned to the Committee under this Plan and when so acting shall have the benefit of all of the provisions of this Plan pertaining to the Committee's exercise of its authority hereunder. The Committee shall have responsibility for the general administration of this Plan and for carrying out its intent and provisions. The Committee shall have plenary authority in its discretion to interpret this Plan; to prescribe, amend and rescind rules and regulations relating to it; to determine the terms of the Election Forms and Award Agreements executed and delivered under this Plan, including such terms and provisions as shall be requisite in the judgment of the Committee to conform to any change in any law or regulation applicable thereto; and have such powers and duties as may be necessary to discharge its responsibilities. The Committee may, from time to time, employ other agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with counsel, who may be counsel to the Company.

b. Binding Effect of Decisions. The decision or action of the Committee in respect of any question arising out of or in connection with the administration, interpretation and application of this Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in this Plan.

10. Amendment and Termination of this Plan.

a. Amendment. The Committee may at any time amend this Plan in whole or in part subject to any restrictions on modifications or amendments as provided in the 2013 EIP; *provided, however,* that no amendment shall affect the terms of any previously deferred RSUs or the terms of any irrevocable Election Form or Award Agreement of any Participant.

b. Termination. The Committee or Board may at any time terminate this Plan, provided the termination does not occur proximate to a downturn in the financial health of the Company and there are then being terminated nonqualified deferred compensation plans which would be Aggregated Plans if the same non-employee individual were eligible to participate in this Plan and all such plans. In the event of a termination of this Plan under this *Section 10(b)*, this Plan shall continue to operate for a period selected by the Board or Committee of at least twelve (12) months from the date the Board or Committee takes irrevocable action to terminate this Plan and this Plan shall continue to pay benefits otherwise payable under the terms of this Plan absent termination of this Plan. On a date selected by the Board or Committee that is more than twelve (12) months from the date the Board or Committee took irrevocable action to terminate this Plan, this Plan shall cease to operate and the Company shall determine the balance of each Participant's Account as of the close of business on such date and the Company shall pay out such Account balances to the Participants in a single distribution as soon as practicable after such date, but in no event shall such distribution be made later than twenty-four (24) months after the date the Board or Committee took action to terminate this Plan. In the event of termination of this Plan under this *Section 10(b)*, the Company shall not establish another nonqualified deferred compensation plan providing elective deferrals on the part of Directors if the same non-employee individual were eligible to participate in this Plan and such plan is within three (3) years of the Board or Committee taking irrevocable action to terminate this Plan.

c. Termination on Change in Control. The Committee or Board may also terminate this Plan by irrevocable action at any time within thirty (30) days prior to or within twelve (12) months following a "change of control" (as defined for purposes of Section 409A of the Code), provided there are then being terminated all Aggregated Plans as to any Participant affected by the change of control. In the event of a termination of this Plan under this *Section 10(c)*, on a date selected by the Board or Committee that is no more than twelve (12) months from the date the Board or Committee took action to terminate this Plan, this Plan shall cease to operate, the Company shall determine the balance of each Participant's Account as of the close of business on such date and the Company shall pay out such Account balances to the Participants in a single distribution as soon as practicable after such date, but in no event later than twelve (12) months after the date the Board or Committee took action to terminate this Plan.

11. Certain Remedies.

a. If at any time within two (2) years after termination of a Participant's association with the Company and its Affiliates any of the following occur:

i. the Participant unreasonably refuses to comply with lawful requests for cooperation made by the Company, its Board, or its Affiliates;

ii. the Participant accepts employment or a consulting or advisory engagement with any Competitive Enterprise (as defined in *Section 11(c)*) of the Company or its Affiliates or the Participant otherwise engages in competition with the Company or its Affiliates;

iii. the Participant acts against the interests of the Company and its Affiliates, including recruiting or employing, or encouraging or assisting the Participant's new employer to recruit or employ an employee of the Company or any Affiliate without the Company's written consent;

iv. the Participant fails to protect and safeguard while in his or her possession or control, or surrender to the Company upon termination of the Participant's association with the Company or any Affiliate or such earlier time or times as the Company or its Board or any Affiliate may specify, all documents, records, tapes, disks and other media of every kind and description relating to the business, present or otherwise, of the Company and its Affiliates and any copies, in whole or in part thereof, whether or not prepared by the Participant;

v. the Participant solicits or encourages any person or enterprise with which the Participant has had business-related contact, who has been a customer of the Company or any of its Affiliates, to terminate its relationship with any of them; or

vi. the Participant breaches any confidentiality obligations the Participant has to the Company or an Affiliate, the Participant fails to comply with the policies and procedures of the Company or its Affiliates for protecting confidential information, the Participant uses confidential information of the Company or its Affiliates for his or her own benefit or gain, or the Participant discloses or otherwise misuses confidential information or materials of the Company or its Affiliates (except as required by applicable law); then

1. All of the RSUs credited to the Participant's Account shall terminate and be cancelled effective as of the date on which the Participant entered into such activity, unless terminated or cancelled sooner by operation of another term or condition of this Plan or the 2013 EIP;

2. any Stock acquired and held by the Participant pursuant to this Plan during the Applicable Period (as defined below) may be repurchased by the Company at a purchase price of $0.01 per share; and

3. any gain realized by the Participant from the sale of Stock acquired pursuant to this Plan during the Applicable Period shall be paid by the Participant to the Company.

b. The term "Applicable Period" shall mean the period commencing on the later of the date of an Award Agreement or the date which is one year prior to the Participant's termination of association with the Company or any Affiliate and ending two years from the Participant's termination of association with the Company or any Affiliate.

c. The term "Competitive Enterprise" shall mean a business enterprise that engages in, or owns or controls a significant interest in, any entity that engages in, the manufacture, sale or distribution of mattresses or pillows or other bedding products or other products competitive with the Company's products. Competitive Enterprise shall include, but not be limited to, the entities set forth on Appendix A hereto, which may be amended by the Company from time to time upon notice to the Participant. At any time the Participant may request in writing that the Company make a determination whether a particular enterprise is a Competitive Enterprise. Such determination will be made within fourteen (14) days after the receipt of sufficient information from the Participant about the enterprise, and the determination will be valid for a period of ninety (90) days from the date of determination.

12. Right of Set Off. The Company may deduct from any amounts the Company or any Affiliate owes the Participant from time to time, any amounts the Participant owes the Company under *Section 11* above, provided that this set-off right may not be applied against wages, salary or other amounts payable to the Participant to the extent that the exercise of such set-off right would violate any applicable law. If the Company does not recover by means of set-off the full amount the Participant owes the Company, calculated as set forth above, the Participant agrees to pay immediately the unpaid balance to the Company upon the Company's demand.

13. Nature of Remedies.

a. The remedies set forth in *Sections 11* and *12* above are in addition to any remedies available to the Company and its Affiliates in any non-competition, employment, confidentiality or other agreement, and all such rights are cumulative. The exercise of any rights hereunder or under any such other agreement shall not constitute an election of remedies.

b. The Company shall be entitled to place a legend on any certificate evidencing any Stock acquired upon this Plan referring to the repurchase right set forth in *Section 11(a)* above. The Company shall also be entitled to issue stop transfer instructions to the Company's stock transfer agent in the event the Company believes that any event referred to in *Section 11(a)* has occurred or is reasonably likely to occur.

14. Compliance with Laws.

a. Government Regulations. This Plan, and the election of the deferral of RSUs thereunder, and the obligation of the Company to issue, sell and deliver shares, as applicable, under the 2013 EIP, shall be subject to all applicable laws, rules and regulations.

b. Compliance with Section 409A of the Code. To the extent applicable, it is intended that this Plan comply with the provisions of Section 409A of the Code. This Plan shall be administered in a manner consistent with this intent, and any provision that would cause this Plan to fail to satisfy Section 409A of the Code shall have no force and effect until amended to comply with Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code and may be made by the Board without the consent of the Participants in this Plan). Notwithstanding the foregoing, no particular tax result for a Participant with respect to any income recognized by the Participant in connection with this Plan is guaranteed under this Plan, and the Participant shall be responsible for any taxes imposed on the Participant in connection with this Plan.

15. Miscellaneous.

a. No Interest in Assets. The Accounts shall be established solely for the purpose of determining the number of RSUs owed to Participants or beneficiaries under this Plan. Participants and their beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interest or claims in any property or assets of the Company. No assets of the Company shall be held under any trust for the benefit of the Participants, their beneficiaries, heirs, successors or assigns, or held in any way as collateral security for the fulfilling of the obligations of the Company under this Plan. The Company's obligation under this Plan shall be that of an unfunded and unsecured promise to deliver shares in respect of RSUs in the future, and the rights of Participants and beneficiaries shall be no greater than those of unsecured general creditors of the Company. Nothing in this Plan shall be deemed to give any member of the Board any right to participate in this Plan, except in accordance with the provisions of this Plan.

b. Non-assignability. Neither a Participant nor any other person shall have the right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the shares in respect of any RSUs, if any, deliverable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be non-assignable and nontransferable. No part of the shares deliverable in respect of any RSUs shall, prior to actual delivery, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

c. Governing Law. The provisions of this Plan shall be construed and interpreted according to the laws of the State of Delaware, without regard to the conflicts of law principles thereof.

d. Validity. In case any provision of this Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal and invalid provisions had never been inserted herein.

e. Notice. Any notice or filing required or permitted to be given to the Company or the Committee under this Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the Secretary of the Company. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

f. Successors. The provisions of this Plan shall bind and inure to the benefit of the Company and its successors and assigns. The term "successors" as used herein shall include any corporate or other business entity which shall, whether by merger, consolidation, purchase or otherwise acquire all or substantially all of the business and assets of the Company, and successors of any such corporation or other business entity.

* * *

9

TEMPUR SEALY INTERNATIONAL, INC.

2020 NON-EMPLOYEE DIRECTOR COMPENSATION PLAN

Acknowledgement and Award Agreement
[Insert Board Member]

This Acknowledgement and Award Agreement (the "Agreement"), dated as of [_______ __, 20__], is between Tempur Sealy International, Inc., a corporation organized under the laws of the State of Delaware (the "Company"), and the individual identified below, residing at the address there set out (the "Recipient").

1. Award of Restricted Stock Units. Pursuant and subject to the Company's Amended and Restated 2013 Equity Incentive Plan, as the same may be amended from time to time, (the "2013 EIP"), the Company grants the Recipient an award (the "Award") for [Insert total of RSUs] restricted stock units ("RSUs") of the common stock, par value $0.01 per share, of the Company (the "Stock") as compensation for the Recipient's service as a member of the board of directors of the Company (the "Board"). This Award is granted as of [_______ __, 20__][1] (the "Grant Date").

2. Rights of Restricted Stock Units. The RSUs granted in this Agreement shall be credited to the Recipient's account under the Company's 2020 Non-Employee Director Compensation Plan (as the same may be amended from time to time, the "Director Compensation Plan"). All of the Recipient's rights in or as a consequence of this grant of RSUs, to the extent the RSUs vest as determined in accordance with *Section 3* below, shall thereafter be determined under the Director Compensation Plan. As provided in the Director Compensation Plan, the Recipient shall have no rights to receive shares of Common Stock in or as a consequence of RSUs which do not vest as determined accordance with *Section 3* below, except as provided in *Section 4* below.

3. Vesting Period and Rights; Delivery Date; and Filings. The Award will vest in one installment as follows:

Number of Shares	Percentage of the Award	Vesting Date[2]
[______]	100%	________ __, 20__

Subject to the provisions of *Section 4* below, the vesting is subject to the Recipient's continued service on the Board of the Company on the vesting date as set forth above (the "Vesting Date").

The Recipient is responsible for any filings required under Section 16 of the Securities Exchange Act of 1934 and the rules thereunder.

4. Termination of Service. If the Recipient's membership with the Board of the Company ends for any reason, the Recipient forfeits all rights and interest in any unvested RSUs;

[1] Insert first day of Board Year with respect to which RSUs are earned.
[2] The Vesting Date should occur on the first year anniversary of the grant date.

provided, however, if the Recipient dies or the Recipient's membership with the Board ends due to the Recipient's long-term disability (within the meaning of Section 409A of the Code), all of the RSUs that have not become vested pursuant to *Section 3* as of the date of death or disability shall immediately vest.

5. Acceleration in Certain Cases. Pursuant to Section 9 of the 2013 EIP and notwithstanding anything herein to the contrary, if a Change of Control occurs this Agreement shall remain in full force and effect in accordance with its terms subject to the following. In the event of such Change of Control, any Risk of Forfeiture (as defined in the 2013 EIP) applicable to the RSUs shall lapse with respect to 50% of the RSUs still subject to such Risk of Forfeiture immediately prior to the Change of Control. For the purposes of this Agreement, "Change of Control" shall have the meaning set forth in the 2013 EIP, *provided*, that no event or transaction shall constitute a Change of Control for purposes of this Agreement unless it also qualifies as a change of control for purposes of Section 409A of the Code.

6. Incorporation of Plan Terms; Acknowledgements. Except as provided in *Section 5*, this Award is granted subject to all of the applicable terms and provisions of the 2013 EIP and the Director Compensation Plan. Without limiting the generality of the foregoing, the Recipient acknowledges that under the terms of the 2013 EIP and Director Compensation Plan:

(a) The Company may recover any payment under the Director Compensation Plan if within two years of the Recipient's termination of service with the Company he or she fails comply with certain covenants (including but not limited, competing with the Company and its Affiliates). By executing this Agreement, the Recipient consents to a deduction from any amounts the Company or any Affiliate owes the Recipient from time to time, to the extent of the amounts the Recipient owes the Company under said *Sections 11* and *12* of the Director Compensation Plan (provided that the set-off right will not be applied against wages, salary or other amounts payable to the Recipient to the extent that the exercise of such set-off right would violate any applicable law) and agrees that if the Company does not recover by means of set-off the full amount the Recipient owes the Company, calculated as set forth above, the Recipient will pay immediately the unpaid balance to the Company upon the Company's demand.

(b) The Company is not liable for the non-issuance or non-transfer, nor for any delay in the issuance or transfer of any shares of Stock due to the Recipient with respect to vested RSUs which results from the inability of the Company to obtain, from each regulatory body having jurisdiction, all requisite authority to issue or transfer shares of Stock of the Company if counsel for the Company deems such authority necessary for the lawful issuance or transfer of any such shares. Acceptance of this Award constitutes the Recipient's agreement that the shares of Stock subsequently acquired hereunder, if any, will not be sold or otherwise disposed of by the Recipient in violation of any applicable securities laws or regulations.

(c) The RSUs are subject to this Agreement and Recipient's acceptance hereof shall constitute the Recipient's agreement to any administrative regulations of the Compensation Committee of the Company's Board (the "Committee"). In the event of any inconsistency between this Agreement and the provisions of the 2013 EIP or Director Compensation Plan, the provisions of such plans shall prevail.

(d) All decisions of the Committee upon any questions arising under the 2013 EIP or Director Compensation Plan or under these terms and conditions are conclusive and binding.

(e) During the Recipient's lifetime, no rights under the Director Compensation Plan related to the Award, the RSUs or any underlying Stock payable in satisfaction of vested RSUs, shall be transferable except by will or the laws of descent and distribution.

(f) The Company makes no representation or warranty as to the tax treatment of this Award, including upon the issuance of the Stock or upon the Recipient's sale or other disposition of the Stock. The Recipient should rely on his own tax advisors for such advice.

(g) All Stock earned and delivered pursuant to this Agreement and the Director Compensation Plan are intended to be paid in compliance with, or on a basis exempt from, Section 409A of the Code. This Agreement, and all terms and conditions used herein, shall be interpreted and construed consistent with that intent. However, the Company does not warrant all such payments will be exempt from, or paid in compliance with, Section 409A of the Code. The Recipient bears the entire risk of any adverse federal, state or local tax consequences and penalty taxes which may result from payments made on a basis contrary to the provisions of Section 409A or comparable provisions of any applicable state or local income tax laws.

7. Miscellaneous. Capitalized terms used but not defined herein shall have the meaning assigned under the 2013 EIP and the Director Compensation Plan. This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware, without regard to the conflict of laws principles thereof and shall be binding upon and inure to the benefit of any successor or assign of the Company_and any executor, administrator, trustee, guardian, or other legal representative of the Recipient. This Agreement may be executed in one or more counterparts all of which together shall constitute one instrument.

In Witness Whereof, the parties have executed this Agreement as of the date first above written.

TEMPUR SEALY INTERNATIONAL, INC.

By: ______________________________

Name: ______________________________

RECIPIENT

____

Name:

Recipient's Address (update if you recently moved):

____

____

____

____

Tempur Sealy International, Inc.
2020 NON-EMPLOYEE DIRECTOR COMPENSATION PLAN
ELECTION FORM

Director Information

Director Name: ____
Last First Initial

Director Address: ____
Street

____
City State Zip

Director SSN: _____________________________________

Background and Purpose

The Board of Directors (the "Board") upon recommendation of the Compensation Committee of Tempur Sealy International, Inc. (the "Company"), has approved payment of part of the compensation for the service of non-employee directors of the Board in the form of restricted stock units ("RSUs"). RSUs are subject to the terms of the Company's 2020 Non-Employee Director Compensation Plan (as the same may be amended from time to time, the "Director Compensation Plan") and the Company's Amended and Restated 2013 Equity Incentive Plan, as amended from time to time (the "2013 EIP"). RSUs vest in accordance with the terms of an Award Agreement issued under the 2013 EIP and under and subject to the terms of the Director Compensation Plan **and are payable upon vesting - unless the director elects a later date of payment under the Director Compensation Plan**. The purpose of this Election Form is to notify the Company of the foregoing election, as follows:

- A "Deferral Election," enabling a non-employee director to elect to defer payment of any RSUs to the date of his or her Separation from Service (as defined in the Director Compensation Plan)

Capitalized terms used but not defined herein shall have the meaning assigned such terms under the 2013 EIP and Director Compensation Plan.

DEFERRAL ELECTION OF RSUs

[ ] By checking the box, I hereby elect to defer any payment in respect of RSUs granted to me during the [20XX-20XX] Board Year, until my Separation from Service.

I understand that if I do *not* make the deferral election set forth above, *payment of the RSUs will be made when the RSUs vest*. I further understand these RSUs will vest as determined under the applicable Award Agreement and my receipt of vested RSUs is subject to my continued service on the Board during the Board Year and the other terms and conditions of the Director Compensation Plan. I understand if my service on the Board ends during the 20XX-20XX Board Year, I will forfeit any unvested RSUs, except as provided in the applicable Award Agreement.

Acknowledgement and Authorization

I understand that any elections on this Form will apply **only** to compensation payable for services as a non-employee director to be rendered in the [insert specific Board Year] Board Year. I further understand that all elections on this Form will become irrevocable on the December 31 preceding that Board Year. I hereby certify that the above participant information is true, accurate and complete.

Director ________________________________ Date_____________________________

Accepted:

TEMPUR SEALY INTERNATIONAL, INC.

By: _________________________________

Name: _________________________________

Date: _______________________________________

Competitive Enterprises of the Company and its Affiliates

Ace
AH Beard
Auping
Ashley Sleep
Bedshed
Better Bed
Bohus
Botafogo
Boyd
Bruno
Carpe Diem
Carpenter
Carolina Mattress
Casper
Cauval Group
Chaide & Chaide
Classic Sleep Products
Coin
Colunex
Copel
Comforpedic
Comfort Group
Comfort Solutions
COFEL group
Correct
De Rucci
Diamona
Doremo Octaspring
Dorelan
Dreams
Drommeland
Dunlopillo
Duxiana
Eastborne
Eight Sleep
El Corte Ingles
Eminflex
Emma
Englander
Eve
Falafella
Flex Group of Companies
Foamex
Forty Winks
Furniture Village
France Bed
Future Foam
Harrisons
Harvey Norman Group

Hastens
Helix Sleep
Hilding Anders Group
Hyundai Retail Group
Hypnos
IBC
Jysk Group
KayMed
King Koil
Kingsdown
Koala
Lady Americana
Land and Sky
Leesa Sleep
Leggett & Platt
Lo Monaco
Lotte Retail Group
Luna
Lutz Group
Magniflex
Metzler
Mlily
Myers
Nature's Sleep (GhostBed)
Nectar
Optimo
Ortobom
Per Dormire
Purple, Inc.
Natura
Natures Rest
Park Place
Permaflex
Pikolin Group
Recticel Group
Relyon
Restonic
Reverie
Rosen
Rowe
Saatva
Sapsa Bedding
Select Comfort
Sherwood Bedding
Silentnight
Simba
Serta Simmons Bedding/Beautyrest and any direct or indirect parent company
Sinomax
Sleep Innovations
Sleepmaker

Sleep Number
Spring Air
Steinhoff
Sterling
Stobel
Swiss Comfort
Swiss Sense
Tediber
Therapedic
Tuft and Needle
Whisper

RETAILERS

Amazon
Ashley
Mattress Firm/Steinhoff
Sleepy’s
Wayfair

Exhibit 22

List of Subsidiary Guarantors

As of September 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
Sleep Outfitters Outlet, LLC, f/k/a 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
Sherwood Northeast, 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 September 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: November 5, 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 September 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: November 5, 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 September 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: November 5, 2020	By:	/s/ SCOTT L. THOMPSON
		Scott L. Thompson **Chairman, President and Chief Executive Officer**
Date: November 5, 2020	By:	/s/ BHASKAR RAO
		Bhaskar Rao **Executive Vice President and Chief Financial Officer**