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 March 31, 2022

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 of principal executive offices)

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

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

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

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

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

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

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

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

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

The number of shares outstanding of the registrant's common stock as of April 28, 2022 was 175,544,225 shares.

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, (this "Report"), including the information incorporated by reference herein, contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which includes information concerning one or more of our plans; objectives; goals; strategies and other information that is not historical information. Many of these statements appear, in particular, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, ITEM 2 of this Report. When used in this Report, the words "assumes," "estimates," "expects," "guidance," "anticipates," "might," "projects," "predicts," "plans," "proposed," "targets," "intends," "believes," "will," "may," "could," "is likely to" and variations of such words or similar expressions are intended to identify forward-looking statements. These forward-looking statements are based upon our expectations and beliefs and various assumptions. There can be no assurance that we will realize our expectations or that our beliefs will prove correct.

Numerous factors, many of which are beyond the Company's control, could cause actual results to differ materially from any that may be expressed herein as forward-looking statements in this Report. These risk factors include the impact of the macroeconomic environment in both the U.S. and internationally on our business segments and expectations regarding growth of the mattress industry; changes in economic conditions, including inflationary trends in the price of raw materials; uncertainties arising from global events (including the Russia-Ukraine conflict), natural disasters or pandemics including COVID-19 and their impact on raw material prices, labor costs and other employment-related costs; loss of suppliers and disruptions in the supply of raw materials; competition in our industry; the effects of strategic investments on our operations, including our efforts to expand our global market share and actions taken to increase sales growth; the ability to develop and successfully launch new products; the ability to realize all synergies and benefits of acquisitions; our reliance on information technology and the associated risks involving potential security lapses and/or cyber-based attacks; deterioration in labor relations; the possibility of exposure of product liability and premises liability claims; our ability to protect our intellectual property; disruptions to the implementation of our strategic priorities and business plan caused by changes in our executive management team; changes in interest rates; effects of changes in foreign exchange rates on our reported earnings; expectations regarding our target leverage and our share repurchase program; compliance with regulatory requirements and the possible exposure to liability for failures to comply with these requirements; the outcome of pending tax audits or other tax, regulatory or investigation proceedings and pending litigation; changes in foreign tax rates and changes in tax laws generally, including the ability to utilize tax loss carryforwards; and our capital structure and debt level, including our ability to meet financial obligations and continue to comply with the terms and financial ratio covenants of our credit facilities;

Other potential risk factors include the factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Annual Report") and in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2022. 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; "2029 Senior Notes" refers to the 4.00% senior notes due 2029 issued in 2021; and "2031 Senior Notes" refers to the 3.875% senior notes due 2031 issued in 2021.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
($ in millions, except per common share amounts)
(unaudited)

	Three Months Ended March 31,	
	2022	2021
Net sales	$ 1,239.5	$ 1,043.8
Cost of sales	716.7	584.9
Gross profit	522.8	458.9
Selling and marketing expenses	243.5	197.7
General, administrative and other expenses	97.6	79.5
Equity income in earnings of unconsolidated affiliates	(6.9)	(6.7)
Operating income	188.6	188.4
Other expense, net:		
Interest expense, net	20.9	12.3
Loss on extinguishment of debt	—	5.0
Other income, net	(1.3)	(0.3)
Total other expense, net	19.6	17.0
Income from continuing operations before income taxes	169.0	171.4
Income tax provision	(38.1)	(40.5)
Income from continuing operations	130.9	130.9
Loss from discontinued operations, net of tax	—	(0.2)
Net income before non-controlling interests	130.9	130.7
Less: Net income attributable to non-controlling interests	0.2	0.2
Net income attributable to Tempur Sealy International, Inc.	$ 130.7	$ 130.5
Earnings per common share:		
Basic		
Earnings per share for continuing operations	$ 0.72	$ 0.64
Loss per share for discontinued operations	—	—
Earnings per share	$ 0.72	$ 0.64
Diluted		
Earnings per share for continuing operations	$ 0.69	$ 0.62
Loss per share for discontinued operations	—	—
Earnings per share	$ 0.69	$ 0.62
Weighted average common shares outstanding:		
Basic	182.6	203.7
Diluted	188.5	210.1

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 March 31, 2022	Three Months Ended March 31, 2021
Net income before non-controlling interests	$ 130.9	$ 130.7
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	(17.5)	(10.8)
Other comprehensive loss, net of tax	(17.5)	(10.8)
Comprehensive income	113.4	119.9
Less: Comprehensive income attributable to non-controlling interests	0.2	0.2
Comprehensive income attributable to Tempur Sealy International, Inc.	$ 113.2	$ 119.7

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

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

	March 31, 2022	December 31, 2021
ASSETS	*(Unaudited)*	
Current Assets:		
Cash and cash equivalents	$ 116.3	$ 300.7
Accounts receivable, net	426.4	419.5
Inventories	581.3	463.9
Prepaid expenses and other current assets	94.8	91.5
Total Current Assets	1,218.8	1,275.6
Property, plant and equipment, net	624.9	583.5
Goodwill	1,096.8	1,107.4
Other intangible assets, net	743.8	750.9
Operating lease right-of-use assets	511.9	480.6
Deferred income taxes	13.5	13.6
Other non-current assets	112.2	111.8
Total Assets	$ 4,321.9	$ 4,323.4
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current Liabilities:		
Accounts payable	$ 462.3	$ 432.0
Accrued expenses and other current liabilities	544.4	558.5
Current portion of long-term debt	62.4	53.0
Income taxes payable	32.0	9.9
Total Current Liabilities	1,101.1	1,053.4
Long-term debt, net	2,588.9	2,278.5
Long-term operating lease obligations	457.1	427.0
Deferred income taxes	127.7	129.2
Other non-current liabilities	138.4	140.3
Total Liabilities	4,413.2	4,028.4
Redeemable non-controlling interest	9.4	9.2
Total Stockholders' (Deficit) Equity	(100.7)	285.8
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' (Deficit) Equity	$ 4,321.9	$ 4,323.4

See accompanying Notes to Condensed Consolidated Financial Statements.

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TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

($ in millions)

(unaudited)

Three Months Ended March 31, 2022

	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	Total Stockholders' Equity
Balance as of December 31, 2021	$ 9.2	283.8	$ 2.8	96.4	$ (2,844.7)	$ 622.0	$ 2,604.9	$ (99.2)	$ 285.8
Net income							130.7		130.7
Net income attributable to non-controlling interest	0.2								—
Foreign currency adjustments, net of tax								(17.5)	(17.5)
Exercise of stock options				—	0.2	(0.1)			0.1
Dividends declared on common stock ($0.10 per share)							(18.8)		(18.8)
Issuances of PRSUs, RSUs, and DSUs				(2.5)	72.1	(72.1)			—
Treasury stock repurchased				12.2	(449.2)				(449.2)
Treasury stock repurchased - PRSU/RSU releases				1.0	(45.6)				(45.6)
Amortization of unearned stock-based compensation						13.8			13.8
Balance, March 31, 2022	$ 9.4	283.8	$ 2.8	107.1	$ (3,267.2)	$ 563.6	$ 2,716.8	$ (116.7)	$ (100.7)

Three Months Ended March 31, 2021

	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 December 31, 2020	$ 8.9	283.8	$ 2.8	78.9	$ (2,096.8)	$ 617.5	$ 2,045.6	$ (65.5)	$ 1.0	$ 504.6
Net income							130.5			130.5
Net income attributable to non-controlling interests									0.2	0.2
Foreign currency adjustments, net of tax								(10.8)		(10.8)
Exercise of stock options				(0.4)	10.9	(4.3)				6.6
Dividends declared on common stock ($0.07 per share)							(14.8)			(14.8)
Issuances of PRSUs, RSUs, and DSUs				(1.5)	38.3	(38.3)				—
Treasury stock repurchased				8.4	(299.8)					(299.8)
Treasury stock repurchased - PRSU/RSU releases				0.5	(13.3)					(13.3)
Amortization of unearned stock-based compensation						15.1				15.1
Balance, March 31, 2021	$ 8.9	283.8	$ 2.8	85.9	$ (2,360.7)	$ 590.0	$ 2,161.3	$ (76.3)	$ 1.2	$ 318.3

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2022	**2021**
CASH FLOWS FROM OPERATING ACTIVITIES FROM CONTINUING OPERATIONS:		
Net income before non-controlling interests	$ 130.9	$ 130.7
Loss from discontinued operations, net of tax	—	0.2
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	30.4	26.5
Amortization of stock-based compensation	13.8	15.1
Amortization of deferred financing costs	1.0	0.6
Bad debt expense	1.6	2.5
Deferred income taxes	(1.0)	7.1
Dividends received from unconsolidated affiliates	1.1	2.5
Equity income in earnings of unconsolidated affiliates	(6.9)	(6.7)
Loss on extinguishment of debt	—	1.5
Foreign currency adjustments and other	(0.1)	0.1
Changes in operating assets and liabilities, net of effect of business acquisitions	(85.2)	(93.8)
Net cash provided by operating activities from continuing operations	85.6	86.3
CASH FLOWS FROM INVESTING ACTIVITIES FROM CONTINUING OPERATIONS:		
Purchases of property, plant and equipment	(60.3)	(23.5)
Acquisitions, net of cash acquired	—	(1.0)
Other	1.0	0.1
Net cash used in investing activities from continuing operations	(59.3)	(24.4)
CASH FLOWS FROM FINANCING ACTIVITIES FROM CONTINUING OPERATIONS:		
Proceeds from borrowings under long-term debt obligations	528.1	1,653.4
Repayments of borrowings under long-term debt obligations	(216.0)	(1,148.6)
Proceeds from exercise of stock options	0.1	6.6
Treasury stock repurchased	(494.8)	(313.1)
Dividends paid	(18.7)	(14.3)
Payments of deferred financing costs	—	(12.7)
Repayments of finance lease obligations and other	(3.5)	(2.4)
Net cash (used in) provided by financing activities from continuing operations	(204.8)	168.9
Net cash (used in) provided by continuing operations	(178.5)	230.8
Net operating cash flows used in discontinued operations	—	(0.4)
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(5.9)	(4.9)
(Decrease) increase in cash and cash equivalents	(184.4)	225.5
CASH AND CASH EQUIVALENTS, beginning of period	300.7	65.0
CASH AND CASH EQUIVALENTS, end of period	$ 116.3	$ 290.5
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$ 4.5	$ 8.3
Income taxes, net of refunds	$ 14.6	$ 20.2

See accompanying Notes to Condensed Consolidated Financial Statements.

(1) Summary of Significant Accounting Policies

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

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

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

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States ("GAAP") for interim financial reporting. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements of the Company and related footnotes for the year ended December 31, 2021, included in the 2021 Annual Report filed with the Securities and Exchange Commission on February 22, 2022.

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) *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)	March 31, 2022	December 31, 2021
Finished goods	$ 393.3	$ 297.8
Work-in-process	12.3	11.4
Raw materials and supplies	175.7	154.7
	$ 581.3	$ 463.9

(c) *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, 2021 to March 31, 2022:

(in millions)		
Balance as of December 31, 2021	$	43.9
Amounts accrued		5.6
Warranties charged to accrual		(5.2)
Balance as of March 31, 2022	$	44.3

As of March 31, 2022 and December 31, 2021, $19.9 million and $20.2 million of accrued warranty expense is included as a component of accrued expenses and other current liabilities and $24.4 million and $23.7 million of accrued warranty expense is included in other non-current liabilities on the Company's accompanying Condensed Consolidated Balance Sheets, respectively.

(d) *Allowance for Credit Losses*. The allowance for credit losses is the Company's best estimate of the amount of expected lifetime credit losses in the Company's accounts receivable. The Company regularly reviews the adequacy of its allowance for credit losses. The Company estimates losses over the contractual life using assumptions to capture the risk of loss, even if remote, based principally on how long a receivable has been outstanding. As of March 31, 2022, the Company's accounts receivable were substantially current. Other factors considered include historical write-off experience, current economic conditions and also factors such as customer credit, past transaction history with the customer and changes in customer payment terms. Account balances are charged off against the allowance for credit losses after all reasonable means of collection have been exhausted and the potential for recovery is considered remote. The allowance for credit losses is included in accounts receivable, net in the accompanying Condensed Consolidated Balance Sheets.

The Company had the following activity for its allowance for credit losses from December 31, 2021 to March 31, 2022:

(in millions)		
Balance as of December 31, 2021	$	62.1
Amounts accrued		1.6
Write-offs charged against the allowance		(1.7)
Balance as of March 31, 2022	$	62.0

(e) Fair Value. Financial instruments, although not recorded at fair value on a recurring basis, include cash and cash equivalents, accounts receivable, accounts payable and the Company's debt obligations. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short-term maturity of those instruments. Borrowings under the 2019 Credit Agreement and the securitized debt are at variable interest rates and accordingly their carrying amounts approximate fair value. The fair value of the following material financial instruments were based on 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)	**March 31, 2022**		**December 31, 2021**	
2029 Senior Notes	$	730.3	$	816.9
2031 Senior Notes	$	686.7	$	803.7

(2) Net Sales

The following table presents the Company's disaggregated revenue by channel, product and geographical region, including a reconciliation of disaggregated revenue by segment, for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31, 2022			Three Months Ended March 31, 2021		
(in millions)	North America	International	Consolidated	North America	International	Consolidated
Channel						
Wholesale	$ 811.3	$ 112.8	$ 924.1	$ 765.5	$ 115.9	$ 881.4
Direct	120.1	195.3	315.4	117.8	44.6	162.4
Net sales	$ 931.4	$ 308.1	$ 1,239.5	$ 883.3	$ 160.5	$ 1,043.8
	North America	International	Consolidated	North America	International	Consolidated
Product						
Bedding	$ 864.9	$ 256.5	$ 1,121.4	$ 830.3	$ 121.7	$ 952.0
Other	66.5	51.6	118.1	53.0	38.8	91.8
Net sales	$ 931.4	$ 308.1	$ 1,239.5	$ 883.3	$ 160.5	$ 1,043.8
	North America	International	Consolidated	North America	International	Consolidated
Geographical region						
United States	$ 864.3	$ —	$ 864.3	$ 818.5	$ —	$ 818.5
All Other	67.1	308.1	375.2	64.8	160.5	225.3
Net sales	$ 931.4	$ 308.1	$ 1,239.5	$ 883.3	$ 160.5	$ 1,043.8

(3) Acquisitions

Acquisition of Dreams Topco Limited

On August 2, 2021, the Company completed the acquisition of Dreams Topco Limited and its direct and indirect subsidiaries ("Dreams"), for a cash purchase price of $476.7 million, which includes $49.5 million of cash acquired. The transaction was funded using cash on hand and bank financing. Dreams has developed a successful multi-channel sales strategy, with over 200 brick and mortar retail locations in the United Kingdom, an industry-leading online channel, as well as manufacturing and delivery assets.

The financial results of Dreams subsequent to the date of acquisition are included in the consolidated financial statements of the Company. The Company accounted for this transaction as a business combination. The preliminary allocation of the purchase price is based on the fair values of the assets acquired and liabilities assumed as of August 2, 2021. The Company continues to obtain information to determine the fair value of acquired assets and liabilities. The components of the preliminary purchase price allocation are as follows:

(in millions)	
Accounts receivable, net	$ 3.5
Inventory	51.2
Property, plant and equipment	33.9
Goodwill	357.1
Indefinite-lived intangible asset	141.9
Operating lease right-of-use assets	158.2
Other current and non-current assets	4.4
Accounts payable	(55.2)
Accrued expenses and other current liabilities	(69.7)
Operating lease liabilities	(165.1)
Debt	(6.1)
Other liabilities	(26.9)
Purchase price, net of cash acquired	$ 427.2

The indefinite-lived intangible asset represents the Dreams' portfolio of trade names as marketed through Dreams. The Company applied the income approach through a relief from royalty method to fair value the trade name asset using level 2 inputs. The indefinite-lived intangible asset is not deductible for income tax purposes.

Goodwill is calculated as the excess of the purchase price over the net assets acquired and primarily represents the expansion of retail competency and online capabilities, and expected synergistic manufacturing and distribution benefits to be realized from the acquisition. The goodwill is not deductible for income tax purposes and is included within the International business segment.

(4) Goodwill

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

(in millions)	North America	International	Consolidated
Balance as of December 31, 2021	$ 611.5	$ 495.9	$ 1,107.4
Foreign currency translation and other	0.9	(11.5)	(10.6)
Balance as of March 31, 2022	$ 612.4	$ 484.4	$ 1,096.8

(5) Debt

Debt for the Company consists of the following:

	March 31, 2022		December 31, 2021		
(in millions, except percentages)	**Amount**	**Rate**	**Amount**	**Rate**	**Maturity Date**
2019 Credit Agreement:					
Term A Facility	$ 665.9	(1)	$ 675.0	(2)	October 16, 2024
Revolver	163.3	(1)	—	(2)	October 16, 2024
2031 Senior Notes	800.0	3.875%	800.0	3.875%	October 15, 2031
2029 Senior Notes	800.0	4.000%	800.0	4.000%	April 15, 2029
Securitized debt	153.4	(3)	—	N/A	April 6, 2023
Finance lease obligations (4)	84.6		75.2		Various
Other	7.5		3.0		Various
Total debt	2,674.7		2,353.2		
Less: Deferred financing costs	23.4		21.7		
Total debt, net	2,651.3		2,331.5		
Less: Current portion	62.4		53.0		
Total long-term debt, net	$ 2,588.9		$ 2,278.5		

(1) Interest at LIBOR plus applicable margin of 1.250% as of March 31, 2022.
(2) Interest at LIBOR plus applicable margin of 1.250% as of December 31, 2021.
(3) Interest at one month LIBOR index plus 70 basis points.
(4) New finance lease obligations are a non-cash financing activity.

As of March 31, 2022, 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.

On February 2, 2021, the Company entered into an amendment to the 2019 Credit Agreement. The amendment increased the revolving credit facility from $425.0 million to $725.0 million. On May 26, 2021, the Company entered into an additional amendment to the 2019 Credit Agreement. The amendment provided for a $300.0 million delayed draw term loan. On July 30, 2021 the Company drew down the full $300.0 million available under the delayed draw term loan to fund, in part, the Dreams acquisition. The delayed draw term loan has the same terms and conditions as the Company's existing term loans under the 2019 Credit Agreement. On September 21, 2021, the Company entered into an additional amendment to the 2019 Credit Agreement to remove the limit to the amount of netted cash that may be deducted from indebtedness for purposes of calculating certain leverage ratios.

The Company had $163.3 million in outstanding borrowings under its revolving credit facility as of March 31, 2022. Total availability under the revolving credit facility was $561.0 million after a $0.7 million reduction for outstanding letters of credit as of March 31, 2022.

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"). On April 6, 2021, the Company and certain of its subsidiaries entered into a new amendment to the Accounts Receivable Securitization. The amendment, among other things, extended the maturity date of the Accounts Receivable Securitization to April 6, 2023 and increased the overall limit from $120.0 million to $200.0 million. While subject to a $200.0 million overall limit, the availability of revolving loans varies over the course of the year based on the seasonality of the Company's accounts receivable. As of March 31, 2022, the Company had fully drawn down the Accounts Receivable Securitization with borrowings of $153.4 million.

(6) Stockholders' Equity

(a) *Treasury Stock.* As of March 31, 2022, the Company had approximately $951.5 million remaining under its share repurchase authorization. The Company repurchased 12.2 million and 8.4 million shares, under the program, for approximately $449.2 million and $299.8 million during the three months ended March 31, 2022 and 2021, respectively.

In addition, the Company acquired shares upon the vesting of certain restricted stock units ("RSUs") and performance restricted stock units ("PRSUs"), which were withheld to satisfy tax withholding obligations during the three months ended March 31, 2022 and 2021. 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 $45.6 million and $13.3 million in treasury stock acquired during the three months ended March 31, 2022 and 2021, respectively.

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

	Three Months Ended March 31,	
(in millions)	2022	2021
Foreign Currency Translation		
Balance at beginning of period	$ (95.2)	$ (58.6)
Other comprehensive loss:		
Foreign currency translation adjustments [(1)]	(17.5)	(10.8)
Balance at end of period	$ (112.7)	$ (69.4)
Pensions		
Balance at beginning of period	$ (4.0)	$ (6.9)
Other comprehensive loss:		
Net change from period revaluations	—	—
Balance at end of period	$ (4.0)	$ (6.9)

(1) In 2022 and 2021, there were no tax impacts related to foreign currency translation adjustments and no amounts were reclassified to earnings.

(7) Other Items

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consisted of the following:

(in millions)	March 31, 2022	December 31, 2021
Operating lease obligations	$ 105.1	$ 101.7
Wages and benefits	74.5	112.2
Unearned revenue	59.8	51.5
Advertising	55.7	72.3
Taxes	24.4	15.0
Other	224.9	205.8
	$ 544.4	$ 558.5

(8) Stock-Based Compensation

The Company's stock-based compensation expense for the three months ended March 31, 2022 and 2021 included PRSUs, non-qualified stock options, 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 March 31,	
(in millions)	2022	2021
PRSU expense	$ 8.3	$ 9.6
Option expense	—	0.4
RSU/DSU expense	5.5	5.1
Total stock-based compensation expense	$ 13.8	$ 15.1

The Company grants PRSUs to executive officers and certain members of management. Actual payout under the PRSUs is dependent upon the achievement of certain financial goals. During the first quarter of 2022, the Company granted PRSUs as a component of the long-term incentive plan ("2022 PRSUs"). The Company has recorded stock-based compensation expense related to the 2022 PRSUs during the three months ended March 31, 2022, as it was probable that the Company would achieve the specified performance target for the performance period.

(9) 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.

(10) Income Taxes

The Company's effective tax rate for the three months ended March 31, 2022 and 2021 was 22.5% and 23.6%, respectively. The Company's effective tax rate for the three months ended March 31, 2022 and 2021 differed from the U.S. federal statutory rate of 21.0% principally due to subpart F income (i.e., global intangible low-taxed income, or "GILTI," earned by the Company's foreign subsidiaries), foreign income tax rate differentials, state and local taxes, changes in the Company's uncertain tax positions, the excess tax benefit related to stock-based compensation and certain other permanent items.

The Company has been involved in a dispute with the Danish Tax Authority ("SKAT") regarding the royalty paid by a U.S. subsidiary of Tempur Sealy International to a Danish subsidiary (the "Danish Tax Matter") for tax years 2012 through current. The royalty is paid by the U.S. subsidiary for the right to utilize certain intangible assets owned by the Danish subsidiary in the U.S. production process.

The uncertain income tax liability for the Danish Tax Matter for the years 2012 through 2022 (the "2012 to Current Period") at March 31, 2022 and December 31, 2021 is approximately $49.3 million and $50.1 million, respectively, and is reflected in the Company's Condensed Consolidated Balance Sheet in other non-current liabilities.

The deferred tax asset for the U.S. correlative benefit associated with the accrual of Danish tax for the 2012 to Current Period at March 31, 2022 and December 31, 2021 is approximately $16.0 million and $15.5 million, respectively.

As of March 31, 2022, the Company made the following tax deposits with SKAT related to the Danish Tax Matter for the years 2012 through 2015, which are reflected in the Company's Condensed Consolidated Balance Sheet in other non-current assets:

(in millions)	USD
VAT deposits remaining with SKAT	$ 1.5
Deposit payments made through December 31, 2021	45.8
Total	$ 47.3

No deposit payments were made in the three month-period ended March 31, 2022.

If the Company is not successful in resolving the Danish Tax Matter for the 2012 to Current Period or there is a change in facts and circumstances, the Company may be required to further increase its uncertain income tax position associated with this matter, or decrease its deferred tax asset, also related to this matter, which could have a material impact on the Company's reported earnings.

There were no other significant changes in the Danish Tax Matter or other uncertain tax positions during the three months ended March 31, 2022.

(11) 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 March 31,	
(in millions, except per common share amounts)	2022	2021
Numerator:		
Income from continuing operations, net of income attributable to non-controlling interests	$ 130.7	$ 130.7
Denominator:		
Denominator for basic earnings per common share-weighted average shares	182.6	203.7
Effect of dilutive securities	5.9	6.4
Denominator for diluted earnings per common share-adjusted weighted average shares	188.5	210.1
Basic earnings per common share for continuing operations	$ 0.72	$ 0.64
Diluted earnings per common share for continuing operations	$ 0.69	$ 0.62

The Company excluded 0.4 million shares 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 for the three months ended March 31, 2022. The Company excluded an immaterial number of shares for the three months ended March 31, 2021. Holders of non-vested stock-based compensation awards do not have voting rights.

(12) Business Segment Information

The Company operates in two segments: North America and International. These segments are strategic business units that are managed separately based on geography. The North America segment consists of manufacturing and distribution subsidiaries, joint ventures and licensees located in the U.S., Canada and Mexico. The International segment consists of manufacturing and distribution subsidiaries, joint ventures and licensees located in Europe, Asia-Pacific and Latin America (other than Mexico). On August 2, 2021, the Company acquired Dreams, which is included in the International segment. Corporate operating expenses are not included in either of the segments and are presented separately as a reconciling item to consolidated results. 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)	March 31, 2022	December 31, 2021
North America	$ 4,572.7	$ 4,360.6
International	1,274.9	1,305.9
Corporate	505.5	730.9
Inter-segment eliminations	(2,031.2)	(2,074.0)
Total assets	$ 4,321.9	$ 4,323.4

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

(in millions)	March 31, 2022	December 31, 2021
North America	$ 491.7	$ 449.9
International	81.9	82.3
Corporate	51.3	51.3
Total property, plant and equipment, net	$ 624.9	$ 583.5

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

(in millions)	March 31, 2022	December 31, 2021
North America	$ 327.0	$ 280.6
International	184.2	199.0
Corporate	0.7	1.0
Total operating lease right-of-use assets	$ 511.9	$ 480.6

The following table summarizes segment information for the three months ended March 31, 2022:

(in millions)	North America	International	Corporate	Eliminations	Consolidated
Net sales	$ 931.4	$ 308.1	$ —	$ —	$ 1,239.5
Inter-segment sales	$ 0.5	$ 0.2	$ —	$ (0.7)	$ —
Inter-segment royalty expense (income)	7.0	(7.0)	—	—	—
Gross profit	352.4	170.4	—	—	522.8
Operating income (loss)	155.4	66.8	(33.6)	—	188.6
Income (loss) from continuing operations before income taxes	155.8	66.4	(53.2)	—	169.0
Depreciation and amortization (1)	$ 22.7	$ 6.0	$ 15.5	$ —	$ 44.2
Capital expenditures	51.0	7.8	1.5	—	60.3

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

The following table summarizes segment information for the three months ended March 31, 2021:

(in millions)	North America	International	Corporate	Eliminations	Consolidated
Net sales	$ 883.3	$ 160.5	$ —	$ —	$ 1,043.8
Inter-segment sales	$ 0.7	$ 0.2	$ —	$ (0.9)	$ —
Inter-segment royalty expense (income)	2.1	(2.1)	—	—	—
Gross profit	363.9	95.0	—	—	458.9
Operating income (loss)	173.4	46.2	(31.2)	—	188.4
Income (loss) from continuing operations before income taxes	172.5	46.1	(47.2)	—	171.4
Depreciation and amortization (1)	$ 21.0	$ 3.6	$ 17.0	$ —	$ 41.6
Capital expenditures	18.8	2.0	2.7	—	23.5

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

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

(in millions)	March 31, 2022	December 31, 2021
United States	$ 522.2	$ 481.1
All Other	102.7	102.4
Total property, plant and equipment, net	$ 624.9	$ 583.5

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

(in millions)	March 31, 2022	December 31, 2021
United States	$ 318.1	$ 278.3
United Kingdom	149.5	162.8
All Other	44.3	39.5
Total operating lease right-of-use assets	$ 511.9	$ 480.6

The following table summarizes net sales by geographic region:

	Three Months Ended March 31,	
(in millions)	**2022**	**2021**
United States	$ 864.3	$ 818.5
All Other	375.2	225.3
Total net sales	$ 1,239.5	$ 1,043.8

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

The following discussion and analysis should be read in conjunction with the 2021 Annual Report, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in ITEM 7 of Part II of the 2021 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 2021 Annual Report and the section titled "Risk Factors" contained in ITEM 1A of Part I of the 2021 Annual 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 months ended March 31, 2022, including the following topics:

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

Business Overview

General

We are committed to improving the sleep of more people, every night, all around the world. As a leading designer, manufacturer, distributor and retailer of bedding products worldwide, we know how crucial a good night of sleep is to overall health and wellness. Utilizing over a century of knowledge and industry-leading innovation, we deliver award-winning products that provide breakthrough sleep solutions to consumers in over 100 countries.

We operate in two segments: North America and International. These segments are strategic business units that are managed separately based on geography. Our North America segment consists of manufacturing and distribution subsidiaries, joint ventures and licensees located in the U.S., Canada and Mexico. Our International segment consists of manufacturing and distribution subsidiaries, joint ventures and licensees located in Europe, Asia-Pacific and Latin America (other than Mexico). On August 2, 2021, we acquired Dreams Topco Limited and its direct and indirect subsidiaries ("Dreams"). Dreams is also included in the International segment. Corporate operating expenses are not included in either of the segments and are presented separately as a reconciling item to consolidated results. We evaluate segment performance based on net sales, gross profit and operating income. For additional information refer to Note 12, "Business Segment Information," included in Part II, ITEM 1 of this Report.

Our highly recognized brands include Tempur-Pedic®, Sealy® and Stearns & Foster® and our non-branded offerings consist of value-focused private label and OEM products. Our products allow for complementary merchandising strategies and are sold through third-party retailers, our more than 650 company-owned and joint venture operated retail stores worldwide and our e-commerce channel.

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

General Business and Economic Conditions

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

Over the last decade, consumers have made the connection between a good night's sleep and overall health and wellness. In recent years, this trend accelerated during the COVID-19 global pandemic. As consumers make this connection they are willing to invest more in their bedding purchases, which positions us well for long-term growth.

In the near term, there are various macro-economic factors impacting the business. While we do not have any operations in Ukraine or Russia, the war in Ukraine has affected both international and domestic markets. Internationally, the war has introduced elements of risk into the supply chain and is affecting consumer confidence in Europe. Also, U.S. consumer confidence has declined due to inflation and geopolitical uncertainty. While we have taken actions that have largely mitigated our broader supply chain risk, declining consumer confidence is negatively impacting our order trends, which we expect to continue.

The COVID-19 global pandemic continues to impact our global operations as variants appear in the markets in which we operate. The recent variant in China and the resulting government mandated lockdowns are negatively impacting our wholly-owned and joint-venture operations in the region.

Our recent actions to expand capacity, diversify our supplier base, increase our safety stock and improve vendor and customer communications have strengthened our supply chain, putting us in a more favorable position to meet consumer demand. Though geopolitical and pandemic-related disruptions continue to create challenges, the many actions we have taken to further insulate our supply chain have largely mitigated their impact.

During the first quarter of 2022, commodity costs unfavorably impacted our gross margin and we implemented pricing actions to mitigate the dollar impact of these known commodity headwinds. We now anticipate additional commodity cost inflation for the remainder of 2022 and expect to implement another round of pricing actions that will neutralize the effect of the incremental inflation on a full year basis.

Product Launches

In 2022, we plan to complete the rollout of a complete refresh of our North American Sealy portfolio that began in 2021. The updated Sealy portfolio features new models in our Posturepedic Plus™, Posturepedic® and Essentials product lines. We also expect to launch a complete refresh of our North American Stearns & Foster portfolio in 2022. In the U.S., we plan to launch a Sealy-branded, eco-friendly mattress collection, as well as a Sealy mattress with a best-in-class pressure-relieving gel grid layer at a consumer-appealing, mid-market price point, in 2022.

In our International segment, we expect to launch an all-new line of Tempur® products in Europe and Asia-Pacific with the objective of reaching a new segment of international consumers. This new line of products will broaden Tempur®'s price range with the super-premium average selling price ceiling maintained and the floor expanded into the premium category. In response to the current geopolitical uncertainty permeating the European market, we have elected to postpone the launch of the new international line of Tempur® products that was planned for 2022 to the first quarter of 2023.

Our global 2022 marketing plan is to aggressively support our innovative bedding products through investing significant marketing dollars to promote our worldwide brands and product launches.

Acquisition of Dreams

On August 2, 2021, we completed the acquisition of Dreams, for a cash purchase price of $476.7 million, which included $49.5 million of cash acquired. The transaction was funded using cash on hand and bank financing. As a multi-branded retailer, Dreams sells a variety of products across a range of price points with a margin profile lower than our historical International segment margins.

Results of Operations

A summary of our results for the three months ended March 31, 2022 include:

- Total net sales increased 18.7% to $1,239.5 million as compared to $1,043.8 million in the first quarter of 2021. On a constant currency basis, which is a non-GAAP financial measure, total net sales increased 19.8%, with an increase of 5.5% in the North America business segment and an increase of 98.6% in the International business segment, primarily driven by the acquisition of Dreams in August 2021.
- Gross margin was 42.2% as compared to 44.0% in the first quarter of 2021.
- Operating income increased to $188.6 million as compared to $188.4 million in the first quarter of 2021.
- Net income increased to $130.7 million as compared to $130.5 million in the first quarter of 2021. Adjusted net income, which is a non-GAAP financial measure, was $134.6 million in the first quarter of 2021. There were no adjustments to net income in the first quarter of 2022.
- EBITDA, which is a non-GAAP financial measure, increased 1.9% to $234.5 million as compared to $230.1 million in the first quarter of 2021.
- Earnings per diluted share ("EPS") increased 11.3% to $0.69 as compared to $0.62 in the first quarter of 2021. Adjusted EPS, which is a non-GAAP financial measure, was $0.64 in the first quarter of 2021. There were no adjustments to EPS in the first quarter of 2022.

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

We may refer to net sales 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 MARCH 31, 2022 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2021

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 March 31,			
(in millions, except percentages and per share amounts)	2022		2021	
Net sales	$ 1,239.5	100.0 %	$ 1,043.8	100.0 %
Cost of sales	716.7	57.8	584.9	56.0
Gross profit	522.8	42.2	458.9	44.0
Selling and marketing expenses	243.5	19.6	197.7	18.9
General, administrative and other expenses	97.6	7.9	79.5	7.6
Equity income in earnings of unconsolidated affiliates	(6.9)	(0.6)	(6.7)	(0.6)
Operating income	188.6	15.2	188.4	18.0
Other expense, net:				
Interest expense, net	20.9	1.7	12.3	1.2
Loss on extinguishment of debt	—	—	5.0	0.5
Other income, net	(1.3)	(0.1)	(0.3)	—
Total other expense, net	19.6	1.6	17.0	1.6
Income from continuing operations before income taxes	169.0	13.6	171.4	16.4
Income tax provision	(38.1)	(3.1)	(40.5)	(3.9)
Income from continuing operations	130.9	10.5	130.9	12.5
Loss from discontinued operations, net of tax	—	—	(0.2)	—
Net income before non-controlling interests	130.9	10.5	130.7	12.5
Less: Net income attributable to non-controlling interests	0.2	—	0.2	—
Net income attributable to Tempur Sealy International, Inc.	$ 130.7	10.5 %	$ 130.5	12.5 %
Earnings per common share:				
Basic				
Earnings per share for continuing operations	$ 0.72		$ 0.64	
Loss per share for discontinued operations	—		—	
Earnings per share	$ 0.72		$ 0.64	
Diluted				
Earnings per share for continuing operations	$ 0.69		$ 0.62	
Loss per share for discontinued operations	—		—	
Earnings per share	$ 0.69		$ 0.62	
Weighted average common shares outstanding:				
Basic	182.6		203.7	
Diluted	188.5		210.1	

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NET SALES

(in millions)	Three Months Ended March 31, 2022 Consolidated	2021 Consolidated	2022 North America	2021 North America	2022 International	2021 International
Net sales by channel						
Wholesale	$ 924.1	$ 881.4	$ 811.3	$ 765.5	$ 112.8	$ 115.9
Direct	315.4	162.4	120.1	117.8	195.3	44.6
Total net sales	$ 1,239.5	$ 1,043.8	$ 931.4	$ 883.3	$ 308.1	$ 160.5

Net sales increased 18.7%, and on a constant currency basis increased 19.8%. The change in net sales was driven by the following:

- *North America* net sales increased $48.1 million, or 5.4%. On a constant currency basis, North America net sales increased 5.5%. Net sales in the Wholesale channel increased $45.8 million, or 6.0%, to $811.3 million, as compared to first quarter of 2021. Net sales in the Direct channel increased $2.3 million, or 2.0% to $120.1 million, as compared to the first quarter of 2021.

- *International* net sales increased $147.6 million, or 92.0%. On a constant currency basis, International net sales increased 98.6%. Net sales in the Wholesale channel increased 3.7% on a constant currency basis. Net sales in the Direct channel increased 345.3% on a constant currency basis, primarily driven by the acquisition of Dreams in August 2021.

GROSS PROFIT

(in millions, except percentages)	Three Months Ended March 31, 2022 Gross Profit	2022 Gross Margin	2021 Gross Profit	2021 Gross Margin	Margin Change
North America	$ 352.4	37.8 %	$ 363.9	41.2 %	(3.4)%
International	170.4	55.3 %	95.0	59.2 %	(3.9)%
Consolidated gross margin	$ 522.8	42.2 %	$ 458.9	44.0 %	(1.8)%

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

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

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

Gross margin declined 180 basis points. The primary drivers of changes in gross margin by segment are discussed below:

- *North America* gross margin declined 340 basis points. The decline in gross margin was driven by price increases to customers without a margin benefit of 280 basis points and operational inefficiencies related to supply chain constraints of 120 basis points. Our gross margin was impacted as sales increased with no change in gross profit dollars, as our pricing actions have been neutralizing the dollar impact of commodities. These declines were partially offset by favorable mix.

- *International* gross margin declined 390 basis points. The decline in gross margin was primarily driven by the acquisition of Dreams of 200 basis points and price increases to customers without a margin benefit of 160 basis points. Dreams' margin profile is lower than our historical international margins as they sell a variety of products across a range of price points.

OPERATING EXPENSES

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

General, administrative and other expenses include salaries and related expenses, 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 March 31,															
	2022		2021		2022		2021		2022		2021		2022		2021	
(in millions)	**Consolidated**				**North America**				**International**				**Corporate**			
Operating expenses:																
Advertising expenses	$	103.2	$	90.9	$	80.9	$	79.4	$	22.3	$	11.5	$	—	$	—
Other selling and marketing expenses		140.3		106.8		72.4		68.8		63.0		31.6		4.9		6.4
General, administrative and other expenses		97.6		79.5		43.7		42.3		25.2		12.4		28.7		24.8
Total operating expenses	$	341.1	$	277.2	$	197.0	$	190.5	$	110.5	$	55.5	$	33.6	$	31.2

Operating expenses increased $63.9 million, or 23.1%, and increased 90 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 $6.5 million, or 3.4%, and decreased 40 basis points as a percentage of net sales. The increase in operating expenses was primarily driven by advertising and other selling and marketing investments.

- *International* operating expenses increased $55.0 million, or 99.1%, and increased 130 basis points as a percentage of net sales. The increase in operating expenses was primarily driven by advertising and other selling and marketing investments, as well as the acquisition of Dreams.

- *Corporate* operating expenses increased $2.4 million, or 7.7%, primarily driven by ERP implementation costs.

Research and development expenses for the three months ended March 31, 2022 were $7.8 million compared to $6.5 million for the three months ended March 31, 2021, an increase of $1.3 million, or 20.0%.

OPERATING INCOME

(in millions, except percentages)	Three Months Ended March 31, 2022 Operating Income	2022 Operating Margin	2021 Operating Income	2021 Operating Margin	Margin Change
North America	$ 155.4	16.7 %	$ 173.4	19.6 %	(2.9)%
International	66.8	21.7 %	46.2	28.8 %	(7.1)%
	222.2		219.6		
Corporate expenses	(33.6)		(31.2)		
Total operating income	$ 188.6	15.2 %	$ 188.4	18.0 %	(2.8)%

Operating income increased $0.2 million and operating margin declined 280 basis points. The primary drivers of changes in operating income and operating margin by segment are discussed below:

- *North America* operating income decreased $18.0 million and operating margin declined 290 basis points. The decline in operating margin was primarily driven by the decline in gross margin of 340 basis points, partially offset by favorable operating expense leverage.

- *International* operating income increased $20.6 million and operating margin declined 710 basis points. The decline in operating margin was primarily driven by the decline in gross margin of 390 basis points and unfavorable operating expense leverage of 120 basis points.

- *Corporate* operating expenses increased $2.4 million, which negatively impacted our consolidated operating margin by 20 basis points, primarily driven by ERP implementation costs.

INTEREST EXPENSE, NET

(in millions, except percentages)	Three Months Ended March 31, 2022	2021	% Change
Interest expense, net	$ 20.9	$ 12.3	69.9 %

Interest expense, net, increased $8.6 million, or 69.9%. The increase in interest expense, net, was primarily driven by increased average levels of outstanding debt.

INCOME TAX PROVISION

(in millions, except percentages)	Three Months Ended March 31, 2022	2021	% Change
Income tax provision	$ 38.1	$ 40.5	(5.9)%
Effective tax rate	22.5 %	23.6 %	

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

Our income tax provision decreased $2.4 million due to a decrease in income before income taxes. Our effective tax rate for the three months ended March 31, 2022 as compared to the same prior year period decreased by 110 basis points. The effective tax rate as compared to the U.S. federal statutory rate for the three months ended March 31, 2022 included the favorable impact of the deductibility of stock compensation in the U.S. and included a net unfavorable impact of other discrete items. The effective tax rate as compared to the U.S. federal statutory tax rate for the three months ended March 31, 2021 included the favorable impact of the deductibility of stock compensation in the U.S. and included a net unfavorable impact of discrete items.

Liquidity and Capital Resources

Liquidity

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

As of March 31, 2022, we had net working capital of $117.7 million, including cash and cash equivalents of $116.3 million, as compared to a working capital of $222.2 million, including cash and cash equivalents of $300.7 million, as of December 31, 2021.

At March 31, 2022, total cash and cash equivalents were $116.3 million, of which $29.9 million was held in the U.S. and $86.4 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:

	Three Months Ended March 31,	
(in millions)	2022	2021
Net cash provided by (used in) continuing operations:		
Operating activities	$ 85.6	$ 86.3
Investing activities	(59.3)	(24.4)
Financing activities	(204.8)	168.9

Cash provided by operating activities from continuing operations decreased $0.7 million in the three months ended March 31, 2022 as compared to the same period in 2021. The decrease in cash provided by operating activities was driven by operational performance in the period.

Cash used in investing activities from continuing operations increased $34.9 million in the three months ended March 31, 2022 as compared to the same period in 2021. The increase in cash used in investing activities was due to increased capital expenditures related to our manufacturing capacity expansion projects.

Cash used in financing activities from continuing operations increased $373.7 million in the three months ended March 31, 2022 as compared to the same period in 2021. For the three months ended March 31, 2022, we had net borrowings of $312.1 million on our credit facilities as compared to net borrowings of $504.8 million, which included proceeds of $800.0 million from the issuance of our 2029 Senior Notes partially offset by net repayments under our credit facilities and 2023 Senior Notes in 2021. During the three months ended March 31, 2022 and 2021, we repurchased $494.8 million and $313.1 million, respectively, of our common stock.

Cash Used in Discontinued Operations

Net cash used in operating, investing and financing activities from discontinued operations for the periods ended March 31, 2022 and 2021 was not material.

Capital Expenditures

Capital expenditures totaled $60.3 million and $23.5 million for the three months ended March 31, 2022 and 2021, respectively. We currently expect our 2022 capital expenditures to be approximately $250 million to $280 million, which includes manufacturing capacity expansion and investments in our other growth initiatives.

Indebtedness

Our total debt increased to $2,674.7 million as of March 31, 2022 from $2,353.2 million as of December 31, 2021. Total availability under our revolving senior secured credit facility was $561.0 million as of March 31, 2022, which matures in 2024. Refer to Note 5, "Debt" in the "Notes to Condensed Consolidated Financial Statements," under Part I, ITEM 1 for further discussion of our debt.

As of March 31, 2022, our ratio of consolidated indebtedness less netted cash to adjusted EBITDA, which is a non-GAAP financial measure, in accordance with our 2019 Credit Agreement was 2.25 times. 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 March 31, 2022, 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, 2029 Senior Notes and 2031 Senior Notes contain similar limitations which, subject to other conditions, allow unlimited restricted payments at times when the ratio of consolidated indebtedness less netted cash to adjusted EBITDA, which is a non-GAAP financial measure, remains below 3.50 times. In addition, these agreements permit limited restricted payments under certain conditions when the ratio of consolidated indebtedness less netted cash to adjusted EBITDA is above 3.50 times. The limit on restricted payments under the 2019 Credit Agreement, 2029 Senior Notes and 2031 Senior Notes is in part determined by a basket that grows at 50% of adjusted net income each quarter, reduced by restricted payments that are not otherwise permitted.

For additional information, refer to "Non-GAAP Financial Information" below for the calculation of the ratio of consolidated indebtedness less netted cash to adjusted EBITDA calculated in accordance with the 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.

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. During the three months ended March 31, 2022, we repurchased 12.2 million shares under our share repurchase program for $449.2 million. As of March 31, 2022, we had $951.5 million remaining under our share repurchase authorization.

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

We will manage our share repurchase program based on current and expected cash flows, share price and alternative investment opportunities. 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 2021 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 March 31, 2022, we had $677.3 million of liquidity, including $116.3 million of cash on hand and $561.0 million available under our revolving senior secured credit facility. In addition, we expect to generate cash flow from operations in the full year 2022. 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.

Our capital allocation strategy follows a balanced approach focused on supporting the business, returning shareholder value through share repurchases and quarterly dividends as well as opportunistic and strategic acquisition opportunities that enhance our global competitiveness. Additionally, we have taken capital structure actions to optimize our balance sheet, through extending the maturities of our long-term debt and lowering our annualized interest expense.

The Board of Directors declared a dividend of $0.10 per share for the second quarter of 2022. The dividend is payable on May 26, 2022 to shareholders of record as of May 12, 2022.

As of March 31, 2022, we had $2,674.7 million in total debt outstanding and consolidated indebtedness less netted cash, which is a non-GAAP financial measure, of $2,559.7 million. Leverage based on the ratio of consolidated indebtedness less netted cash to adjusted EBITDA, which is a non-GAAP financial measure, was 2.25 times for the trailing twelve months ended March 31, 2022. 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.

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" contained in ITEM 1A of Part I of the 2021 Annual Report.

Non-GAAP Financial Information

We provide information regarding adjusted net income, adjusted EPS, EBITDA, adjusted EBITDA, 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, 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 March 31, 2022 and 2021:

	Three Months Ended	
(in millions, except per share amounts)	**March 31, 2022**	**March 31, 2021**
Net income	$ 130.7	$ 130.5
Loss from discontinued operations, net of tax (1)	—	0.2
Loss on extinguishment of debt (2)	—	5.0
Tax adjustments (3)	—	(1.1)
Adjusted net income	$ 130.7	$ 134.6
Adjusted earnings per share, diluted	$ 0.69	$ 0.64
Diluted shares outstanding	188.5	210.1

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

(2) In the first quarter of 2021, we recognized $5.0 million of loss on extinguishment of debt associated with the redemption of the remaining amount outstanding of the 2023 senior notes.

(3) Adjusted income tax provision represents the tax effects associated with the aforementioned items.

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

The following table sets forth our reported gross profit and reported operating income (expense) for the three months ended March 31, 2022. We had no adjustments to gross profit or operating income (expense) for the three months ended March 31, 2022.

	Three Months Ended March 31, 2022						
(in millions, except percentages)	**Consolidated**	**Margin**	**North America**	**Margin**	**International**	**Margin**	**Corporate**
Net sales	$ 1,239.5		$ 931.4		$ 308.1		$ —
Gross profit	$ 522.8	42.2 %	$ 352.4	37.8 %	$ 170.4	55.3 %	$ —
Operating income (expense)	$ 188.6	15.2 %	$ 155.4	16.7 %	$ 66.8	21.7 %	$ (33.6)

The following table sets forth our reported gross profit and reported operating income (expense) for the three months ended March 31, 2021. We had no adjustments to gross profit or operating income (expense) for the three months ended March 31, 2021.

	Three Months Ended March 31, 2021						
(in millions, except percentages)	**Consolidated**	**Margin**	**North America**	**Margin**	**International**	**Margin**	**Corporate**
Net sales	$ 1,043.8		$ 883.3		$ 160.5		$ —
Gross profit	$ 458.9	44.0 %	$ 363.9	41.2 %	$ 95.0	59.2 %	$ —
Operating income (expense)	$ 188.4	18.0 %	$ 173.4	19.6 %	$ 46.2	28.8 %	$ (31.2)

EBITDA, Adjusted EBITDA and Consolidated Indebtedness less Netted Cash

The following reconciliations are provided below:

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

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

The 2019 Credit Agreement provides the definition of adjusted EBITDA. Accordingly, we present adjusted EBITDA 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 for the three months ended March 31, 2022 and 2021:

	Three Months Ended	
(in millions)	**March 31, 2022**	**March 31, 2021**
Net income	$ 130.7	$ 130.5
Interest expense, net	20.9	12.3
Loss on extinguishment of debt (1)	—	5.0
Income taxes	38.1	40.5
Depreciation and amortization	44.8	41.8
EBITDA	$ 234.5	$ 230.1
Adjustments:		
Loss from discontinued operations, net of tax (2)	—	0.2
Adjusted EBITDA	$ 234.5	$ 230.3

(1) In the first quarter of 2021, we recognized $5.0 million of loss on extinguishment of debt associated with the redemption of the remaining amount outstanding on the 2023 senior notes.

(2) 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.

The following table sets forth the reconciliation of our net income to the calculations of EBITDA and adjusted EBITDA for the trailing twelve months ended March 31, 2022:

(in millions)		Trailing Twelve Months Ended March 31, 2022
Net income	$	624.7
Interest expense, net		69.7
Overlapping interest expense (1)		5.2
Loss on extinguishment of debt (2)		18.0
Income tax provision		195.9
Depreciation and amortization		179.6
EBITDA	$	1,093.1
Adjustments:		
Loss from discontinued operations, net of tax (3)		0.5
Earnings from Dreams prior to acquisition (4)		38.7
Acquisition-related costs (5)		6.2
Adjusted EBITDA	$	1,138.5
Consolidated indebtedness less netted cash	$	2,559.7
Ratio of consolidated indebtedness less netted cash to adjusted EBITDA		2.25 times

(1) In the trailing twelve months ended March 31, 2022, we incurred $5.2 million of overlapping interest expense during the period between the issuance of the 2029 Senior Notes and the redemption of the 2026 Senior Notes.

(2) In the trailing twelve months ended March 31, 2022, we recognized $18.0 million of loss on extinguishment of debt associated with the redemption of the 2026 and 2023 Senior Notes.

(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) We completed the acquisition of Dreams on August 2, 2021 and designated this subsidiary as restricted under the 2019 Credit Agreement. For covenant compliance purposes, we included $38.7 million of EBITDA from this subsidiary for the four months prior to acquisition in our calculation of adjusted EBITDA for the trailing twelve months ended March 31, 2022.

(5) In the trailing twelve months ended March 31, 2022, we recognized $6.2 million of acquisition-related costs, primarily related to legal and professional fees and stamp taxes associated with the acquisition of Dreams.

Under the 2019 Credit Agreement, the definition of adjusted EBITDA contains certain restrictions that limit adjustments to net income when calculating adjusted EBITDA. For the trailing twelve months ended March 31, 2022, 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 is 2.25 times for the trailing twelve months ended March 31, 2022. 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 March 31, 2022. "Consolidated Indebtedness" and "Netted Cash" are terms used in the 2019 Credit Agreement for purposes of certain financial covenants.

(in millions)	March 31, 2022
Total debt, net	$ 2,651.3
Plus: Deferred financing costs (1)	23.4
Consolidated indebtedness	2,674.7
Less: Netted cash (2)	115.0
Consolidated indebtedness less netted cash	$ 2,559.7

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

(2) Netted cash includes cash and cash equivalents for domestic and foreign subsidiaries designated as restricted subsidiaries in the 2019 Credit Agreement.

Critical Accounting Policies and Estimates

For a discussion of our critical accounting policies and estimates, please refer to ITEM 7 under Part II, "Management’s Discussion and Analysis of Financial Condition and Results of Operations," in the 2021 Annual Report. There have been no material changes to our critical accounting policies and estimates in 2022.

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. If 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 net income by 1.7% and 2.1% in the three months ended March 31, 2022 and 2021, respectively. Foreign currency exchange rate changes negatively impacted our EBITDA, which is a non-GAAP financial measure, by 1.3% in the three months ended March 31, 2022 and positively impacted our adjusted EBITDA, which is a non-GAAP financial measure, by 1.7% in the three months ended March 31, 2021.

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 March 31, 2022, resulting from a hypothetical 10.0% adverse change in all foreign currency exchange rates against the U.S. dollar, is approximately $7.2 million. Such losses would be largely offset by gains from the revaluation or settlement of the underlying assets and liabilities that are being protected by the foreign exchange forward contracts.

Interest Rate Risk

As of March 31, 2022, we had variable-rate debt of approximately $990.1 million. A sensitivity analysis indicates that, 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 $9.9 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 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 March 31, 2022, 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 rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting:

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information regarding legal proceedings can be found in Note 9, "Commitments and Contingencies," of the "Notes to Condensed Consolidated Financial Statements," under Part I, ITEM 1, "Financial Statements" of this Report and is incorporated by reference herein.

ITEM 1A. RISK FACTORS

None.

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

(a) Not applicable.

(b) Not applicable.

(c) Issuer Purchases of Equity Securities

The following table sets forth purchases of our common stock for the three months ended March 31, 2022:

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)*
January 1, 2022 - January 31, 2022	5,035,548	(1)	$40.69	4,076,953	$1,241.4
February 1, 2022 - February 28, 2022	4,796,767	(1)	$38.58	4,796,767	$1,056.4
March 1, 2022 - March 31, 2022	3,311,286	(1)	$31.68	3,311,286	$951.5
Total	13,143,601			12,185,006	

(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	Amended and Restated Certificate of Incorporation of Tempur-Pedic International Inc. (filed as Exhibit 3.1 to Amendment No. 3 to the Registrant's registration statement on Form S-1/A (File No. 333-109798) as filed on December 12, 2003). (1)
3.2	Amendment to Certificate of Incorporation of Tempur-Pedic International Inc. (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K as filed on May 24, 2013). (1)
3.3	Second Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Tempur Sealy International, Inc. (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K as filed on May 10, 2021). (1)
3.4	Seventh Amended and Restated By-laws of Tempur Sealy International, Inc. (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K as filed on February 11, 2019). (1)
4.1	Indenture, dated as of March 25, 2021, among Tempur Sealy International, Inc., the Guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K as filed on March 25, 2021). (1).
4.2	Form of 4.00% Senior Notes due 2029 (included in Exhibit 4.1 to the Registrant's Current Report on Form 8-K as filed on March 25, 2021). (1)
4.3	Indenture, dated as of September 24, 2021 among Tempur Sealy International, Inc., the Guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee (filed as Exhibit 10.1 (but numbered 4.1) to the Registrant's Current Report on Form 8-K as filed on September 24, 2021). (1)
4.4	Form of 3.875% Senior Notes due 2031 (included in Exhibit 10.1 (but numbered 4.1) to the Registrant's Current Report on Form 8-K as filed on September 24, 2021). (1)
31.1	Certification of Chief Executive Officer, pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer, pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Tempur Sealy International, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, 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 March 31, 2022, formatted in Inline XBRL.

(1) Incorporated by reference.

* This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78r), or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

SIGNATURES

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

TEMPUR SEALY INTERNATIONAL, INC.

Date: May 5, 2022

By: /s/ BHASKAR RAO

Bhaskar Rao
Executive Vice President and Chief Financial Officer

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 March 31, 2022 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: May 5, 2022

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 March 31, 2022 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: May 5, 2022	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 March 31, 2022, 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: May 5, 2022	By:	/s/ SCOTT L. THOMPSON
		Scott L. Thompson
		Chairman, President and Chief Executive Officer
Date: May 5, 2022	By:	/s/ BHASKAR RAO
		Bhaskar Rao
		Executive Vice President and Chief Financial Officer