

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 8-K

**CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported) May 3, 2018

TEMPUR SEALY INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

001-31922

(Commission File Number)

33-1022198

(I.R.S. Employer Identification No.)

1000 Tempur Way

Lexington, Kentucky 40511

(Address of principal executive offices) (Zip Code)

(800) 878-8889

(Registrant's telephone number, including area code)

N/A

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the Registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).
Emerging growth company

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

Item 2.02 Results of Operations and Financial Condition

On May 3, 2018, Tempur Sealy International, Inc. (the “Company”) issued a press release to announce its financial results for the quarter ended March 31, 2018 and reaffirmed financial guidance for 2018. A copy of the press release is attached as Exhibit 99.1 to this current report on Form 8-K and is incorporated herein by reference.

The information in this Item 2.02 (including Exhibit 99.1) shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 7.01 Regulation FD Disclosure

The information furnished under Item 2.02 of this Form 8-K is hereby incorporated by reference under this Item 7.01 as if fully set forth herein.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

Exhibit	Description
99.1	Press Release dated May 3, 2018, titled “Tempur Sealy Reports First Quarter 2018 Results”

TEMPUR+SEALY

TEMPUR SEALY REPORTS FIRST QUARTER 2018 RESULTS

- Net Sales Declined, Increased 3% Excluding Mattress Firm
- North American Direct Sales Increased Approximately 30%
- International Sales Increased 17%

LEXINGTON, KY, May 3, 2018 - Tempur Sealy International, Inc. (NYSE: TPX) today announced financial results for the first quarter ended March 31, 2018. The Company also reaffirmed its financial guidance for the full year 2018.

FIRST QUARTER 2018 FINANCIAL SUMMARY

- Total net sales decreased 10.3% to \$648.0 million from \$722.1 million in the first quarter of 2017. On a constant currency basis, total net sales decreased 12.2%, with a decrease of 17.1% in the North America business segment and an increase of 8.2% in the International business segment. Total net sales in the first quarter of 2017 included \$94.5 million in sales to Mattress Firm Inc. ("Mattress Firm").
- Gross margin under U.S. generally accepted accounting principles ("GAAP") was 41.3% as compared to 39.7% in the first quarter of 2017, which included \$11.5 million of charges associated with the termination of the relationship with Mattress Firm. Gross margin was 41.3% as compared to adjusted gross margin⁽¹⁾ of 41.3% in the first quarter of 2017.
- GAAP operating income decreased to \$53.9 million as compared to \$59.5 million in the first quarter of 2017, which included \$25.9 million of net charges associated with the Mattress Firm termination. GAAP operating income decreased to \$53.9 million as compared to adjusted operating income⁽¹⁾ of \$85.4 million in the first quarter of 2017.
- GAAP net income decreased to \$23.1 million as compared to \$33.9 million in the first quarter of 2017. GAAP net income decreased to \$23.1 million as compared to adjusted net income⁽¹⁾ of \$52.2 million in the first quarter of 2017.
- Earnings before interest, tax, depreciation and amortization ("EBITDA")⁽¹⁾ decreased to \$83.2 million as compared to \$86.8 million for the first quarter of 2017, which includes \$34.3 million of charges related to the Mattress Firm termination. EBITDA⁽¹⁾ decreased to \$83.2 million as compared to adjusted EBITDA⁽¹⁾ of \$121.1 million in the first quarter of 2017.
- GAAP earnings per diluted share ("EPS") decreased to \$0.42 as compared to \$0.62 in the first quarter of 2017. EPS decreased to \$0.42 as compared to adjusted EPS⁽¹⁾ of \$0.96 in the first quarter of 2017.

KEY HIGHLIGHTS

(in millions, except percentages and per common share amounts)	Three Months Ended		% Change	% Change Constant Currency ⁽¹⁾
	March 31, 2018	March 31, 2017		
Net sales	\$ 648.0	\$ 722.1	(10.3)%	(12.2)%
EBITDA ⁽¹⁾	83.2	86.8	(4.1)%	(8.9)%
Adjusted EBITDA ⁽¹⁾	83.2	121.1	(31.3)%	(34.7)%

Tempur Sealy International, Inc. Chairman and CEO Scott Thompson commented, "Over the last twelve months, the team has made considerable progress towards resetting the foundation of our Company. We have enhanced our relationships with a diversified base of retail partners, we have expanded our owned store footprint and online presence, we are in the process of meaningfully enhancing our product portfolio, and we continue to be laser-focused on shareholder value. Our flexible operating model and productivity initiatives were on full display in the first quarter, as we maintained our gross margins despite planned sales declines after the termination with our largest account last year and cost pressures from commodities. With a new suite of bedding products and an intense focus on execution, Tempur Sealy is well positioned to increase earnings and create long-term shareholder value."

(1) This is a non-GAAP financial measure. Please refer to "Non-GAAP Financial Measures and Constant Currency Information" below.

Business Segment Highlights

The Company's business segments include North America and International. Corporate operating expenses are not included in either of the business segments and are presented separately as a reconciling item to consolidated results.

North America net sales decreased to \$485.0 million from \$582.3 million in the first quarter of 2017, driven primarily by the Mattress Firm termination. On a constant currency basis⁽¹⁾, North America net sales decreased 17.1% compared to the first quarter of 2017. GAAP gross margin was 37.9% as compared to 36.8% in the first quarter of 2017. GAAP operating margin was 11.1% as compared to 8.8% in the first quarter of 2017.

At the beginning of the second quarter of 2017, the Company terminated its contracts with Mattress Firm, a wholly owned subsidiary of Steinhoff International Holdings N.V. In the first quarter of 2017, net sales to Mattress Firm were \$94.5 million. Excluding Mattress Firm sales in the prior year, North America net sales were flat in the first quarter of 2018.

North America net sales through the wholesale channel decreased to \$454.0 million. North America net sales through the direct channel increased \$6.9 million, or 28.6%, to \$31.0 million, primarily driven by growth from expanded retail stores and increased web sales, as compared to the first quarter of 2017.

North America gross margin declined 90 basis points as compared to adjusted gross margin⁽¹⁾ for the first quarter of 2017. The decline was driven primarily by commodity cost inflation, fixed cost deleverage on lower unit volume and unfavorable brand mix. These were partially offset by improved channel mix, operational improvements and favorable product mix. North America operating margin declined 330 basis points as compared to adjusted operating margin⁽¹⁾ for the first quarter of 2017. The decline in adjusted operating margin was driven by operating expense deleverage and the decline in gross margin. The Company implemented a price increase in March 2018 to partially offset the expected commodity inflation.

International net sales increased 16.6% to \$163.0 million from \$139.8 million in the first quarter of 2017. On a constant currency basis⁽¹⁾, International net sales increased 8.2% compared to the first quarter of 2017. Gross margin was 51.5% as compared to 51.6% in the first quarter of 2017. Operating margin was 16.5% as compared to 18.5% in the first quarter of 2017.

International net sales through the wholesale channel increased \$20.1 million or 17.6% to \$134.2 million and sales through the direct channel increased \$3.1 million or 12.1% to \$28.8 million as compared to the first quarter of 2017.

International gross margin declined 10 basis points as compared to adjusted gross margin⁽¹⁾ for the first quarter of 2017. International operating margin declined 260 basis points as compared to adjusted operating margin⁽¹⁾ for the first quarter of 2017, primarily driven by unfavorable operating expense leverage from significant investments in advertising, as well as the change in classification of royalty income due to the adoption of new revenue recognition guidance.

Corporate GAAP operating expense increased to \$27.0 million from \$17.8 million in the first quarter of 2017. In the first quarter of 2017, the Company recorded a benefit of \$9.3 million related to a change in estimate for performance-based stock compensation. Corporate operating expense increased to \$27.0 million as compared to adjusted operating expense⁽¹⁾ of \$25.1 million in the first quarter of 2017.

Balance Sheet

As of March 31, 2018, the Company reported \$34.5 million in cash and cash equivalents and \$1.8 billion in total debt, as compared to \$41.9 million in cash and cash equivalents and \$1.8 billion in total debt as of December 31, 2017.

Financial Guidance

The Company reaffirmed today its financial guidance for 2018. For the full year 2018, the Company currently expects adjusted EBITDA⁽¹⁾ to range from \$450 million to \$500 million.

The Company noted its expectations are based on information available at the time of this release, and are subject to changing conditions, many of which are outside the Company's control.

(1) This is a non-GAAP financial measure. Please refer to "Non-GAAP Financial Measures and Constant Currency Information" below.

The Company also noted that its 2018 outlook for adjusted EBITDA is a non-GAAP financial measure that excludes or has otherwise been adjusted for items impacting comparability. The Company further noted that it is unable to reconcile this forward-looking non-GAAP financial measure to GAAP net income, its most directly comparable forward-looking GAAP financial measure, without unreasonable efforts, because the Company is currently unable to predict with a reasonable degree of certainty the type and extent of certain items that would be expected to impact GAAP net income in 2018 but would not impact adjusted EBITDA. These items that impact comparability may include restructuring activities, foreign currency exchange rates, income taxes (including the impact of the Tax Cuts and Jobs Act of 2017), and other items. The unavailable information could have a significant impact on the Company's full year 2018 GAAP financial results.

Recent Changes to Revenue Recognition Accounting Standards

Due to a new revenue recognition standard adopted on January 1, 2018, the Company changed the classification of royalty income from a component of operating income to revenue. In the first quarter of 2018, this accounting standard adoption increased North America wholesale net sales by approximately \$2 million and increased International wholesale net sales by approximately \$3 million, as compared to the same period in the prior year. There is no impact to reported operating income, net income, or EBITDA arising from this change in classification. Although these earnings measures did not change, net sales increased compared to the same period in the prior year and gross margin and operating margin were negatively impacted by this change in accounting standard. This will continue to impact the Company's results and their comparability to the prior year period, in each quarter of 2018.

Conference Call Information

Tempur Sealy International, Inc. will host a live conference call to discuss financial results today, May 3, 2018, at 8:00 a.m. Eastern Time. The dial-in number for the conference call is 800-850-2903. The dial-in number for international callers is 224-357-2399. The call is also being webcast and can be accessed on the investor relations section of the Company's website, <http://www.tempursealy.com>. After the conference call, a webcast replay will remain available on the investor relations section of the Company's website for 30 days.

Non-GAAP Financial Measures and Constant Currency Information

For additional information regarding EBITDA, adjusted EBITDA, adjusted EPS, adjusted net income, adjusted operating income, adjusted gross margin, adjusted operating margin, free cash flow, consolidated funded debt, and consolidated funded debt less qualified cash (all of which are non-GAAP financial measures), please refer to the reconciliations and other information included in the attached schedules. For information on the methodology used to present information on a constant currency basis, please refer to "Constant Currency Information" included in the attached schedules.

Forward-Looking Statements

This press release contains "forward-looking statements," within the meaning of the federal securities laws, which include information concerning one or more of the Company's plans, objectives, goals, strategies, and other information that is not historical information. When used in this release, the words "estimates," "expects," "guidance," "anticipates," "projects," "plans," "proposed," "intends," "believes," and variations of such words or similar expressions are intended to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to the Company's expectations regarding adjusted EBITDA for 2018 and performance generally for 2018 and subsequent periods and the Company's expectations for enhancing its product portfolio and increasing earnings and shareholder value. All forward-looking statements are based upon current expectations and beliefs and various assumptions. There can be no assurance that the Company will realize these expectations or that these beliefs will prove correct.

(1) This is a non-GAAP financial measure. Please refer to "Non-GAAP Financial Measures and Constant Currency Information" below.

Numerous factors, many of which are beyond the Company's control, could cause actual results to differ materially from those expressed as forward-looking statements. These risk factors include risks associated with the Company's capital structure and debt level; general economic, financial and industry conditions, particularly in the retail sector, as well as consumer confidence and the availability of consumer financing; changes in product and channel mix and the impact on the Company's gross margin; changes in interest rates; the impact of the macroeconomic environment in both the U.S. and internationally on the Company's business segments; uncertainties arising from global events; the effects of changes in foreign exchange rates on the Company's reported earnings; consumer acceptance of the Company's products; industry competition; the efficiency and effectiveness of the Company's advertising campaigns and other marketing programs; the Company's ability to increase sales productivity within existing retail accounts and to further penetrate the Company's wholesale channel, including the timing of opening or expanding within large retail accounts and the timing and success of product launches; the effects of consolidation of retailers on revenues and costs; changes in demand for the Company's products by significant retailer customers; the Company's ability to expand brand awareness; the Company's ability to expand distribution either through third parties or through direct sales; the Company's ability to continuously improve and expand its product line and successfully roll out new products, maintain efficient, timely and cost-effective production and delivery of its products, and manage its growth; the effects of strategic investments on the Company's operations; changes in foreign tax rates and changes in tax laws generally, including the ability to utilize tax loss carry forwards; the outcome of various pending tax audits or other tax, regulatory or investigation proceedings and pending litigation; changing commodity costs; the effect of future legislative or regulatory changes; and disruptions to the implementation of the Company's strategic priorities and business plan caused by abrupt changes in the Company's senior management team and Board of Directors.

Other potential risk factors include the risk factors discussed under the heading "Risk Factors" under ITEM 1A of Part 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2017. There may be other factors that may cause the Company's actual results to differ materially from the forward-looking statements. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

About Tempur Sealy International, Inc.

Tempur Sealy International, Inc. (NYSE: TPX) develops, manufactures and markets mattresses, foundations, pillows and other products. The Company's brand portfolio includes many highly recognized brands in the industry, including Tempur®, Tempur-Pedic®, Sealy® featuring Posturepedic® Technology, and Stearns & Foster®. World headquarters for Tempur Sealy International is in Lexington, KY. For more information, visit <http://www.tempursealy.com> or call 800-805-3635.

Investor Relations Contact:

Aubrey Moore
Investor Relations
Tempur Sealy International, Inc.
800-805-3635
Investor.relations@tempursealy.com

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(in millions, except percentages and per common share amounts)
(unaudited)

	Three Months Ended		Chg %
	March 31,		
	2018	2017	
Net sales	\$ 648.0	\$ 722.1	(10.3)%
Cost of sales ⁽¹⁾	380.1	435.5	
Gross profit	267.9	286.6	(6.5)%
Selling and marketing expenses	148.9	153.7	
General, administrative and other expenses	69.0	66.5	
Customer termination charges, net ⁽¹⁾	—	14.4	
Equity income in earnings of unconsolidated affiliates	(3.9)	(2.7)	
Royalty income, net of royalty expense	—	(4.8)	
Operating income	53.9	59.5	(9.4)%
Other expense, net:			
Interest expense, net	22.9	22.1	
Other income, net	(1.8)	(9.2)	
Total other expense, net	21.1	12.9	
Income before income taxes	32.8	46.6	(29.6)%
Income tax provision	(10.0)	(14.6)	
Net income before non-controlling interest	22.8	32.0	(28.8)%
Less: Net loss attributable to non-controlling interest	(0.3)	(1.9)	
Net income attributable to Tempur Sealy International, Inc.	\$ 23.1	\$ 33.9	(31.9)%
Earnings per common share:			
Basic	\$ 0.43	\$ 0.63	
Diluted	\$ 0.42	\$ 0.62	(32.3)%
Weighted average common shares outstanding:			
Basic	54.3	53.9	
Diluted	54.9	54.6	

Please refer to Footnotes at the end of this release.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in millions)

ASSETS	March 31, 2018 (unaudited)	December 31, 2017
Current Assets:		
Cash and cash equivalents	\$ 34.5	\$ 41.9
Accounts receivable, net	339.4	317.7
Inventories	214.7	183.0
Prepaid expenses and other current assets	71.2	64.8
Total Current Assets	659.8	607.4
Property, plant and equipment, net	436.8	435.1
Goodwill	731.1	733.1
Other intangible assets, net	661.7	667.4
Deferred income taxes	25.1	23.6
Other non-current assets	235.5	227.4
Total Assets	\$ 2,750.0	\$ 2,694.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 248.7	\$ 241.2
Accrued expenses and other current liabilities	226.5	234.2
Income taxes payable	28.7	29.1
Current portion of long-term debt	65.6	72.4
Total Current Liabilities	569.5	576.9
Long-term debt, net	1,707.6	1,680.7
Deferred income taxes	113.5	114.3
Other non-current liabilities	214.9	207.4
Total Liabilities	2,605.5	2,579.3
Redeemable non-controlling interest	1.9	2.2
Total Stockholders' Equity	142.6	112.5
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity	\$ 2,750.0	\$ 2,694.0

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(in millions)
(unaudited)

	Three Months Ended	
	March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income before non-controlling interest	\$ 22.8	\$ 32.0
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	20.9	19.6
Amortization of stock-based compensation	6.3	(3.4)
Amortization of deferred financing costs	0.6	0.5
Bad debt expense	1.4	2.4
Deferred income taxes	0.1	(5.3)
Dividends received from unconsolidated affiliates	1.6	1.3
Equity income in earnings of unconsolidated affiliates	(3.9)	(2.7)
Loss on sale of assets	0.2	0.3
Foreign currency adjustments and other	(3.5)	(0.1)
Changes in operating assets and liabilities	(56.2)	22.6
Net cash (used in) provided by operating activities	(9.7)	67.2
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(21.8)	(12.9)
Other	4.2	0.9
Net cash used in investing activities	(17.6)	(12.0)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings under long-term debt obligations	417.1	302.9
Repayments of borrowings under long-term debt obligations	(394.8)	(331.8)
Proceeds from exercise of stock options	1.9	0.1
Treasury stock repurchased	(2.9)	(43.8)
Other	(1.8)	(3.4)
Net cash provided by (used in) financing activities	19.5	(76.0)
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	0.4	(2.4)
Decrease in cash and cash equivalents	(7.4)	(23.2)
CASH AND CASH EQUIVALENTS, beginning of period	41.9	65.7
CASH AND CASH EQUIVALENTS, end of period	\$ 34.5	\$ 42.5

Summary of Channel Sales

The following table highlights net sales information, by channel and by segment, for the three months ended March 31, 2018 and 2017:

<i>(in millions)</i>	Three Months Ended March 31,							
	Consolidated		North America				International	
	2018	2017	2018	2017	2018	2017		
Wholesale ^{(a) (b)}	\$ 588.2	\$ 672.3	\$ 454.0	\$ 558.2	\$ 134.2	\$ 114.1		
Direct ^(c)	59.8	49.8	31.0	24.1	28.8	25.7		
	<u>\$ 648.0</u>	<u>\$ 722.1</u>	<u>\$ 485.0</u>	<u>\$ 582.3</u>	<u>\$ 163.0</u>	<u>\$ 139.8</u>		

(a) The Wholesale channel includes all third party retailers, including third party distribution, hospitality, and healthcare.

(b) Royalty income has been reclassified into the wholesale channel for 2018 due to the new revenue recognition standard adopted on January 1, 2018.

(c) The Direct channel includes company-owned stores, e-commerce and call centers.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
Reconciliation of Non-GAAP Measures
(in millions, except percentages, ratios and per common share amounts)

The Company provides information regarding adjusted net income, adjusted EPS, adjusted gross profit, adjusted gross margin, adjusted operating income (expense), adjusted operating margin, EBITDA, adjusted EBITDA, consolidated funded debt and consolidated funded debt less qualified cash, and free cash flow, which are not recognized terms under GAAP and do not purport to be alternatives to net income and earnings per share as a measure of operating performance or an alternative to total debt. The Company believes these non-GAAP measures provide investors with performance measures that better reflect the Company's underlying operations and trends, providing a perspective not immediately apparent from net income and operating income. The adjustments management makes to derive the non-GAAP measures include adjustments to exclude items that may cause short-term fluctuations in the nearest GAAP measure, but which management does not consider to be the fundamental attributes or primary drivers of the Company's business, including the exclusion of charges associated with the Mattress Firm termination in the first quarter of 2017 and other costs.

The Company believes that exclusion of these items assists in providing a more complete understanding of the Company's underlying results from continuing operations and trends, and management uses these measures along with the corresponding GAAP financial measures to manage the Company's business, to evaluate its 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 and these non-GAAP measures should be considered supplemental in nature and should not be construed as more significant than comparable 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 measures and a reconciliation to the nearest GAAP measure, please refer to the reconciliations on the following pages.

Constant Currency Information

In this press release the Company refers to, and in other press releases and other communications with investors the Company 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.

Adjusted Net Income and Adjusted EPS

A reconciliation of GAAP net income to adjusted net income and a calculation of adjusted EPS are provided below. Management believes 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 at the end of this release.

The following table sets forth the reconciliation of the Company's GAAP net income to adjusted net income and a calculation of adjusted EPS for the three months ended March 31, 2018 and 2017:

<i>(in millions, except per share amounts)</i>	Three Months Ended	
	March 31, 2018	March 31, 2017
GAAP net income	\$ 23.1	\$ 33.9
Customer termination charges, net ⁽¹⁾	—	25.9
Tax adjustments ⁽²⁾	—	(7.6)
Adjusted net income	<u>\$ 23.1</u>	<u>\$ 52.2</u>
Adjusted earnings per common share, diluted	<u>\$ 0.42</u>	<u>\$ 0.96</u>
Diluted shares outstanding	<u>54.9</u>	<u>54.6</u>

Please refer to Footnotes at the end of this release.

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

A reconciliation of GAAP gross profit and gross margin to adjusted gross profit and gross margin, respectively, and GAAP operating income (expense) and operating margin to adjusted operating income (expense) and operating margin, respectively, are provided below. Management believes 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 at the end of this release.

The following table sets forth the Company's reported GAAP gross profit and operating income (expense) for the three months ended March 31, 2018. The Company had no adjustments to GAAP gross profit and operating income (expense) for the three months ended March 31, 2018:

<i>(in millions, except percentages)</i>	1Q 2018						
	Consolidated	Margin	North America	Margin	International	Margin	Corporate
Net sales	\$ 648.0		\$ 485.0		\$ 163.0		\$ —
Gross profit	\$ 267.9	41.3%	\$ 184.0	37.9%	\$ 83.9	51.5%	\$ —
Operating income (expense)	\$ 53.9	8.3%	\$ 54.0	11.1%	\$ 26.9	16.5%	\$ (27.0)

The following table sets forth the reconciliation of the Company's reported GAAP gross profit and operating income (expense) to the calculation of adjusted gross profit and operating income (expense) for the three months ended March 31, 2017:

<i>(in millions, except percentages)</i>	1Q 2017						
	Consolidated	Margin	North America (3)	Margin	International (4)	Margin	Corporate (5)
Net sales	\$ 722.1		\$ 582.3		\$ 139.8		\$ —
Gross profit	\$ 286.6	39.7%	\$ 214.5	36.8%	\$ 72.1	51.6%	\$ —
Adjustments	11.5		11.5		—		—
Adjusted gross profit	\$ 298.1	41.3%	\$ 226.0	38.8%	\$ 72.1	51.6%	\$ —
Operating income (expense)	\$ 59.5	8.2%	\$ 51.4	8.8%	\$ 25.9	18.5%	\$ (17.8)
Adjustments	25.9		32.4		0.8		(7.3)
Adjusted operating income (expense)	\$ 85.4	11.8%	\$ 83.8	14.4%	\$ 26.7	19.1%	\$ (25.1)

EBITDA, Adjusted EBITDA, Consolidated Funded Debt Less Qualified Cash and Free Cash Flow

The following reconciliations are provided below:

- GAAP net income to EBITDA and adjusted EBITDA
- Ratio of consolidated funded debt less qualified cash to adjusted EBITDA
- Total debt to consolidated funded debt less qualified cash
- Net cash (used in) provided by operating activities to free cash flow

Management believes that presenting these non-GAAP measures provides investors with useful information with respect to the Company's operating performance, cash flow generation, and comparisons from period to period, as well as general information about the Company's progress in reducing its leverage.

Please refer to Footnotes at the end of this release.

The following table sets forth the reconciliation of the Company's reported GAAP net income to the calculations of EBITDA and adjusted EBITDA for the three months ended March 31, 2018 and 2017:

<i>(in millions)</i>	Three Months Ended	
	March 31, 2018	March 31, 2017
GAAP net income	\$ 23.1	\$ 33.9
Interest expense, net	22.9	22.1
Income taxes	10.0	14.6
Depreciation and amortization	27.2	16.2
EBITDA	<u>\$ 83.2</u>	<u>\$ 86.8</u>
Adjustments:		
Customer termination charges ⁽⁶⁾	—	34.3
Adjusted EBITDA	<u>\$ 83.2</u>	<u>\$ 121.1</u>

The following table sets forth the reconciliation of the Company's net income to the calculations of EBITDA and adjusted EBITDA for the trailing twelve months ended March 31, 2018:

<i>(in millions)</i>	Trailing Twelve Months Ended	
	March 31, 2018	
GAAP net income	\$	140.6
Interest expense, net		108.8
Income taxes		43.1
Depreciation and amortization		105.6
EBITDA	<u>\$</u>	<u>398.1</u>
Adjustments:		
Latin American subsidiary charges ⁽⁷⁾		9.1
Other costs ⁽⁸⁾		3.4
Adjusted EBITDA	<u>\$</u>	<u>410.6</u>
Consolidated funded debt less qualified cash	\$	1,780.5
Ratio of consolidated funded debt less qualified cash to adjusted EBITDA		4.34 times

Under the Company's senior secured credit agreement entered into during 2016 ("2016 Credit Agreement"), adjusted EBITDA contains certain restrictions that limit adjustments to GAAP net income when calculating adjusted EBITDA. For the twelve months ended March 31, 2018, the Company's adjustments to GAAP net income when calculating adjusted EBITDA did not exceed the allowable amount under the 2016 Credit Agreement.

The ratio of adjusted EBITDA under the Company's 2016 Credit Agreement to consolidated funded debt less qualified cash is 4.34 times for the trailing twelve months ended March 31, 2018. The Company's 2016 Credit Agreement requires the Company to maintain a ratio of consolidated funded debt less qualified cash to adjusted EBITDA of less than 5.00:1.00 times.

Please refer to Footnotes at the end of this release.

The following table sets forth the reconciliation of the Company's reported total debt to the calculation of consolidated funded debt less qualified cash as of March 31, 2018. "Consolidated funded debt" and "qualified cash" are terms used in the Company's 2016 Credit Agreement for purposes of certain financial covenants.

<i>(in millions)</i>	March 31, 2018	
Total debt, net	\$	1,773.2
Plus: Deferred financing costs ⁽⁹⁾		10.6
Total debt		1,783.8
Plus: Letters of credit outstanding		23.1
Consolidated funded debt	\$	1,806.9
Less:		
Domestic qualified cash ⁽¹⁰⁾		14.3
Foreign qualified cash ⁽¹⁰⁾		12.1
Consolidated funded debt less qualified cash	\$	1,780.5

The following table sets forth the reconciliation of the Company's net cash from operating activities to free cash flow for the three months ended March 31, 2018 and 2017:

<i>(in millions)</i>	Three Months Ended March 31,	
	2018	2017
Net cash (used in) provided by operating activities	\$ (9.7)	\$ 67.2
Subtract: Purchases of property, plant and equipment	21.8	12.9
Free cash flow	\$ (31.5)	\$ 54.3

Please refer to Footnotes at the end of this release.

Footnotes:

- (1) In the first quarter of 2017, the Company recorded \$25.9 million of net charges related to the termination of the relationship with Mattress Firm. Cost of sales included \$11.5 million of charges related to the write-off of customer-unique inventory and product obligations. Operating expenses included \$14.4 million of net charges, which included a write-off of \$17.2 million for customer incentives and marketing assets, \$5.8 million of employee-related costs and \$0.7 million of professional fees. These charges were offset by \$9.3 million of benefit related to the change in estimate associated with performance-based stock compensation that was no longer probable of payout following the Mattress Firm termination.
- (2) Tax adjustments represent adjustments associated with the aforementioned items and other discrete income tax events.
- (3) Adjustments for the North America business segment included \$32.4 million of costs related to the Mattress Firm termination. Cost of sales included \$11.5 million of charges related to the write-off of customer-unique inventory and product obligations. Operating expenses included \$20.9 million of charges, which included a write-off of \$17.2 million for customer incentives and marketing assets, and \$3.7 million of employee-related costs and professional fees.
- (4) Adjustments for the International business segment represent certain employee-related expenses.
- (5) Adjustments for Corporate represent costs related to the Mattress Firm termination. The Company recorded \$9.3 million of benefit related to the change in estimate associated with performance-based stock compensation that was no longer probable of payout, \$0.9 million of accelerated stock-based compensation expense and \$1.1 million of other employee-related expenses and professional fees.
- (6) Adjusted EBITDA excludes \$34.3 million of charges related to the termination of the relationship with Mattress Firm. This amount represents the \$25.9 million of net charges discussed in Footnote 1 above, and adds the net amortization impact of \$8.4 million of stock-based compensation benefit incurred in the first quarter of 2017.
- (7) In the third and fourth quarters of 2017, the Company recorded a total of \$9.1 million of non-interest related charges associated with a Latin American subsidiary. Operating income includes \$5.1 million of restructuring charges, which relate to the wind down of certain operations, leadership termination charges and professional fees, as well as \$3.8 million of non-income tax charges. Other expense, net includes \$0.2 million of other charges.
- (8) In the third and fourth quarters of 2017, the Company incurred a total of \$3.4 million in other costs. In the third quarter of 2017, the Company recorded \$3.0 million in charges for hurricane-related costs and a customer's bankruptcy. In the fourth quarter of 2017, the Company incurred \$0.4 million in costs associated with an early lease termination.
- (9) The Company presents 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, the Company has added these costs back to total debt, net as calculated in the Condensed Consolidated Balance Sheets.
- (10) Qualified cash as defined in the 2016 Credit Agreement equals 100.0% of unrestricted domestic cash plus 60.0% of unrestricted foreign cash. For purposes of calculating leverage ratios, qualified cash is capped at \$150.0 million.