Herman Miller, Inc.
First Quarter Fiscal 2010
Investor Conference Call
September 17, 2009

The following document is a replication of the notes used in Herman Miller, Inc.'s First Quarter Fiscal 2010 Conference Call presentation. Brian Walker, President and CEO; Greg Bylsma, CFO; and Jeff Stutz, VP Investor Relations and Treasurer, hosted the call. These notes represent an abridged version of the conference call and do not include the Q & A segment of the call. Those wishing to hear the Q & A segment can do so by listening to the archived webcast version of the call on this website.

This presentation will include forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. These risks and uncertainties include those risk factors discussed in the Company's reports on forms 10-K and 10-Q and other reports filed with the Securities and Exchange Commission.

Also, the financial amounts and references to internal measures mentioned today are unaudited.

OPENING – BRIAN WALKER (PRESIDENT AND CEO)

Good morning and welcome everyone.

I want to start by introducing to you Jeff Stutz, our new Treasurer and VP of Investor Relations. Jeff has been a member of the Herman Miller finance team for a number of years, and we're excited to have him with us today in his new role.

On our call last quarter, we ended by acknowledging that the tough economic climate we faced in fiscal 2009 would continue to challenge us into 2010. But we also emphasized our view that we are on a long-term journey, and that we had made great strides in setting the stage for our future success – including the announcement of several strategic initiatives.

Business levels in the first quarter were substantially lower than last year – a direct reflection of the rough waters we anticipated coming into the period. Despite this, our financial results for the quarter demonstrate the degree to which we have improved the efficiency and flexibility of our cost structure in the past year. These improvements enabled us to <u>again</u> deliver solid operating profits, even after absorbing charges associated with restructuring actions and the debt retirement.

Sales in the quarter decreased 32% from last year's level while new orders, adjusted for the pull-forward impact of last year's price increase, declined 36%. Operating earnings in the quarter were $21 million or 6.5% of sales when you exclude the restructure and debt retirement expenses.

Despite the magnitude of the sales and order declines, the rate of decrease in order entry has leveled off over the past few months. While this certainly doesn't suggest we are in recovery mode, it does signal a degree of stabilization in demand – a condition necessary before a market recovery can begin.

Altogether, we had a strong beginning to the fiscal year, and in a few minutes Greg and Jeff will provide you with a more detailed review of the numbers. First though, I'd like to share with you a few observations on the progress we've made on the priorities and investments announced last quarter.

- We completed the acquisition of Nemschoff near the end of June and immediately launched the process of integrating its products and processes into our existing healthcare business. One of the first steps in this effort was the announcement that our Brandrud manufacturing facility in Seattle will be closed and its operations transferred to the Nemschoff campus in Sheboygan, Wisconsin. This process will be completed later this fiscal year.

- Not surprisingly, there's tremendous excitement throughout the organization for what the addition of Nemschoff means to the advancement of our healthcare strategy. Beth Nickels and her team are moving aggressively forward in the integration process and have us off to a terrific start.

- In July, we settled the debt tender offer, which resulted in the retirement of $75 million of our highest cost debt obligations. In doing so, we met our objective of de-levering our balance sheet and reducing ongoing interest costs.

- We also moved forward this quarter with our plans to consolidate our Integrated Metal Technologies operation in Spring Lake, Michigan. As a reminder, we expect this move into existing space with other facilities will provide ongoing cost savings of between $5 million and $7 million on an annual basis when fully implemented later this year.

- Finally, we are proud to have once again been named to the Dow Jones Sustainability World Index – an international stock portfolio that evaluates the performance of the world's 2,500 largest companies using economic, environmental, and social criteria. In fact, of the approximately 300 companies selected, we were the only contract office furniture manufacturer to make the list. It's the sixth consecutive year we have earned this recognition, and it reflects our legacy of commitment to business practices that drive both solid financial performance and environmental advocacy.

I'll now turn the call over the Greg and Jeff to cover the quarterly results in more detail.

1Q FINANCIAL REVIEW – GREG BYLSMA (CFO)

Thanks, Brian, Good morning everyone.

Our first quarter results reflected what has been (and still remains) a very challenging economic environment. That said, we are encouraged by our start to the year, despite a revenue decline of over 30% from a year ago. We succeeded in delivering profit from operations at the mid-single-digit percentage level – a goal we outlined for you at the start of this economic downturn. This was achieved, in large part, from the restructuring actions we've implemented in the last year – some of which, as Brian pointed out, have not yet translated into operational cost savings.

The first quarter sales were $324 million, down 32% from the prior year, and up slightly on a sequential-quarter basis. Given the closing date of the Nemschoff acquisition, we were able to consolidate nine weeks of their results, which added $15 million to our top line in the period.

North American sales in the quarter were $270 million, which is down $126 million, or 32% from Q1 last year. Declines were experienced across all components of our North American operation, though our healthcare business has continued to show the most resilience due to the downturn. Sales in Canada and Mexico decreased significantly, due in part to a $3 million negative impact from exchange rates.

Sales in our Non-North American business regions reported even deeper year-over-year declines. Sales of $42 million in the quarter were down 40% from last year. We saw the steepest declines this quarter in continental Europe and the Middle East. Exchange rates from a year ago drove roughly $3 million of the decrease in sales this quarter.

One bright spot in the period was a significant percentage increase in sales in India. While we are still talking about relatively small dollars, we were encouraged to see our Indian sales double this quarter compared to last year – a positive sign that our efforts to structure a sales organization in that region are beginning to pay off.

Orders in the first quarter were $322 million – a decrease of 40% from the same period last year. As we outlined in our press release, this year-to-year percentage drop was impacted by the timing of our general price increase, which became effective in August of last year. In the first quarter of last year, we received an estimated $35 million of orders that were "pulled-ahead" by customers anticipating the price increase. When you adjust for this impact, our year-over-year decline in orders was $178 million or 36%. Of this dollar decrease, we estimate $6 million was due to changes in exchange rates from a year ago.

Despite the percentage decline from last year, we are very encouraged by continued signs of stability in weekly order entry levels. This is showing itself in the form of a more normalized pattern of seasonal order trending, which we began to experience back in the March to April time frame last year. One other positive trend is in our non-North America segment where orders rose 6% sequentially from Q4.

Gross margin is next…

Our gross margin percentage in the first quarter was 33.2%, a decline from last year of only 70 basis points on a $155 million decrease in volume. We continued to benefit this quarter from substantially lower commodity and fuel prices versus the prior year. We also realized significant savings in our labor and overhead spending relative to last year as a result of our restructuring efforts. These factors helped offset a large loss of leverage from the lower volume.

Material prices decreased significantly from the prior year which drove an estimated $7 million reduction relative to last year. Fuel prices, which reached record levels in Q1 of last year, were also much improved. This helped drive a 40 basis point improvement in overall freight and distribution expenses this quarter.

Expenses were down across virtually every component of our manufacturing overhead structure. The largest reductions came in the area of employee wages and benefits – a direct result of the restructuring actions we've implemented. That said, our overhead expenses were higher than the prior year on a percentage basis due to the decline in revenue.

On a sequential basis, gross margins in the first quarter improved 70 basis points from the fourth quarter where we were at 32.5%. This was mainly due to a $2 million improvement in commodity costs. We also had incentive bonus expenses in the fourth quarter of last year whereas none were earned in the current period.

Moving on to operating expenses and income…

Operating expenses in the first quarter were $91 million compared to $106 million last year. Included in current quarter expenses was a $4.5 million charge associated with the premium paid on the debt tender offer, and approximately $4 million from the Nemschoff business unit.

Last quarter we outlined for you the components of the Nemschoff purchase price. One of these components is called a Contingent Value Right – or CVR. We recorded the CVR as a liability at the date of purchase, and then adjusted its value at quarter-end based on the market value of our stock. This adjustment resulted in a $1 million reduction to operating expenses in the quarter. However, as required under GAAP, this favorable impact to net income was excluded from the determination of diluted EPS in the quarter.

The reduction in operating expenses resulting from the CVR was more than offset by an increase in bad debt reserves in the quarter.

When you net it all out, adjusting for these items, operating expenses decreased over 22% compared to last year!

Restructuring expenses in the first quarter of almost $3 million related to severance benefits associated with our consolidation projects.

Operating earnings in the quarter were $14 million or 4.4% of sales. However, when you exclude the non-recurring expenses, our adjusted operating earnings were $21 million or 6.5% of sales.

We had good news again this quarter in the area of income taxes. Our effective tax rate was negative 0.7%. The low rate resulted from the release of $3 million in income tax reserves due to the closure of IRS audits for the years 2005 through 2008. Going forward, we expect to see a more normalized effective rate, bringing our full-year rate to between 28 and 30%.

Net income in the quarter was $8 million or $0.14 per share. Excluding the per-share impact of the tender offer premium and restructuring charges, adjusted EPS in the quarter was $0.22. This does include a 5-cent per share benefit from the reversal of the tax reserves.

That's the income statement overview for the quarter. Now I'll turn the call over to Jeff to give us an update on our cash flow and balance sheet.

[JEFF STUTZ]

Thank you, Greg. Good morning everyone.

We ended the quarter with a cash and equivalents balance of $100 million – down from $193 million at the end of May. As expected, outlays related to the Nemschoff acquisition and the debt pay-down drove a significant reduction in our cash position during the period.

As the team outlined last quarter, the total purchase price associated with Nemschoff has multiple components. During the quarter, we made a cash payment of $37 million, which included a $12 million outlay to retire the net debt on Nemschoff's balance sheet as of the transaction date.

In July, we incurred a cash outlay of $79.5 million in completing the debt tender offer. In completing this transaction, we repurchased a portion of our highest cost debt obligations. The tendered Notes carried an aggregate principal value of $75 million, bore annual interest at 7 $^{1}/_{8}$ percent, and were due in March 2011. The final clearing price on the tender offer was 1.06, meaning that the Notes were repurchased at roughly a 6% premium above their principal value. As Greg just mentioned, this premium amounted to approximately $4.5 million – an amount below the maximum bid price outlined in the offer, and well within the acceptable range of our financial models.

Cash flow from operations in the quarter was $27 million. Changes in working capital, primarily refunded income taxes and reductions in AR and prepaids, drove a $10 million <u>source</u> of funds in the period.

By contrast, working capital changes in the first quarter of last year resulted in a $44 million <u>use</u> of funds. This was principally due to the payment of prior year incentive bonuses, which accounted for $38 million of the total cash use at that time.

Capital expenditures were $6 million in the first quarter – a 29% reduction from the $8 million spent last year in the same period.

Dividend payments in the quarter were $1.2 million, compared to roughly $5 million last year. The reduction was driven by our decision late last year to conserve cash by reducing the quarterly payout rate by 75% - a move that will save us approximately $14 million on an annualized basis.

We are in compliance with all debt covenants and are currently running at a leverage ratio (that is to say, Debt to EBITDA) of approximately 2-times on a gross-debt basis.

We are also in a strong liquidity position having just re-negotiated our revolving credit facility last quarter. We currently have $139 million of unused capacity on the revolver; with the only usage being from outstanding insurance-related letters of credit. We believe this borrowing capacity provides us with sufficient flexibility going forward, especially when combined with our reduced debt load.

That's the balance sheet overview for the quarter.

I'll now turn the call back over to Greg to share some thoughts on the outlook as we move through Q2.

[GREG BYLSMA]

Thanks, Jeff

Consistent with recent quarters, we aren't providing specific forward-looking sales and earnings guidance. However, we thought it would be helpful to share with you some general thoughts on the trends we will be looking at as we move through the latter-half of calendar 2009.

- Excluding the partial-quarter impact of Nemschoff, orders in Q1 averaged $24 million per week. The addition of Nemschoff increased this run-rate to just over $25 million per week.

- We would typically see an increase in order rates between Q1 and Q2.

- A primary reason for this increase has historically been the seasonal buying pattern of the GSA, which tends to increase as we approach their fiscal year-end in September. In past years, it has not been uncommon for us to see double-digit increases in government orders between the first and second quarters – thereby driving an increase in consolidated orders of between 3% and 6%.

- Orders from the GSA generally take longer to convert to sales than do dealer-based orders for commercial business. For this reason, the sequential increase in order rates between Q1 and Q2 is often greater than that of net sales. In other words, we typically build backlog during the second quarter, which is subsequently worked down as government projects are completed and invoiced.

- One caveat is while federal government orders are expected to track with our historical experience, business from our state and local government entities, however, has been more negatively impacted by the recession. This could have a dampening effect on the seasonal up-tick in orders between Q1 and Q2.

- From a gross margin perspective, we expect to see increased pricing pressure going forward. We're also continuing to keep a close eye on commodity pricing, and view this as an outlook risk – though we don't anticipate a significant negative impact in Q2. Assuming steady levels of production, we expect to see gross margins at or slightly below our Q1 level in the near-term.

- When you exclude the impact of the debt tender offer and the added expenses from Nemschoff, we've done a good job holding the line on core operating expenses over the past two quarters. We intend to continue this focus on expense management moving forward.

- Our upcoming quarter will include a full 13 weeks of operating expenses from Nemschoff. Additionally, we expect to see an increase in expenses associated with a program of incentive compensation tied to our decision last year to reduce employee base pay by 10%. As profitability improves, employees have an opportunity to "earn back" a portion of this reduction in the form of a quarterly bonus.

With that, I will now turn the call back to the operator and we'll take your questions.

CLOSING – BRIAN WALKER

In closing, we're seeing a good start to the year. Despite the challenges we continue to face from an economy hobbled by recession, we've made significant improvements in the structure and composition of our business. In doing so, we have maintained solid profitability while at the same time making investments in support of our long-term goals. It's a balance that has served Herman Miller well throughout its history and one that continues to work for us today.

Thanks for joining us this morning and we'll look forward to talking to you again next quarter.