

**Herman Miller, Inc.**  
**Second Quarter Fiscal 2009**  
**Conference Call**  
**December 18, 2008**

The following document is a replication of the notes used in Herman Miller, Inc.'s Second Quarter Fiscal 2009 Conference Call presentation. Brian Walker, President and CEO; Curt Pullen, CFO; and Joe Nowicki, 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, everyone. Our results and activities from this past quarter reflected two distinct themes. First, based on the strength of our opening backlog, the organization did a great job of executing and delivering very solid results. Second, as the news and turmoil of the economic crisis took hold, we began to experience significantly lower levels of order entry, as our customers deferred capital expenditures and began to adjust their business for what most feared would be a deep and longer than normal recession. Let me open our presentation with a few remarks on each of these topics and then I'll turn the call over to Curt and Joe for a more detailed review of our results.

As you will recall, we entered this quarter with a strong backlog in most of our businesses, but we were tepid about the strength of demand in the core North American Office Furniture business and we faced a strong headwind from rapidly rising raw materials. In general, the quarter played out as we expected. But, we did not anticipate two very big factors: First, the rapid acceleration and spread of the credit crisis had a significant impact on order entry levels, as companies pulled back on the reigns and began to defer projects and hold on to cash in anticipation of a deep and long recession. Second, the very swift appreciation of the US dollar against many currencies resulted in a significant reduction in reported orders and a revaluation of our backlog. This drop in order entry levels was experienced across most of the business, with the notable exception being the Healthcare business. This segment tends to have longer sales cycles and previously funded construction has remained strong. Our business model is

characterized by having a good deal of variable cost, a light asset footprint and high turn of working capital. Therefore, within a reasonable range of demand, our business will adjust naturally. This was clearly demonstrated this past quarter. We were able to adjust our expenditure levels and still deliver respectable bottom line results and generate a good deal of cash. While the price of raw materials and commodities began to rapidly retreat, this change will take some time to work its way through the supply chain. Therefore, this positive development had very little, if any, impact on this past quarter.

As the order entry trends became more convincing and the general economic climate continued to decline, we decided that it would be necessary to adjust our expenditure levels beyond what our business model would drive naturally. As a result, we moved deliberately to reduce employment and expenditure levels. These changes announced earlier in the quarter were in most areas of the business and across the globe. The employment reductions were in both salaried and hourly positions and were implemented in four steps, voluntary separation, involuntary separation, elimination of the temporary labor and lay-offs. We offered an enhanced severance package to enable folks who were near the end of their career at Herman Miller to volunteer for separation. Ultimately, we received more volunteers than we had anticipated. While this increased the cost of our actions, we believe this investment has enabled us to retain the people and skill sets that we will need now and in the future. The first two steps of this plan were implemented in early December. We will complete the remaining two steps in early January. In total, we will have reduced our total employment by over 1,000 people. Keep in mind, this is a moving target as we will flex production employment levels with demand. In addition to employment levels, we have prioritized and reduced our program and capital expenditure plans. Of course, we also have developed tactical actions to ensure we can win our fair share, of what will be a very competitive environment.

These actions are not a change in strategic direction for Herman Miller. We continue to believe our strategy of performance innovation and revenue diversification was and is working. And, we believe the long-term trends we have been anticipating and building toward are still in play. At the same time, while none of us likes to live through down cycles, we have always used these times to sharpen our game, improve our efficiencies and anticipate new sources of customer value. And, that is what we are determined to do this time. We have an experienced leadership team at the helm who has steered through difficult periods in the past. We know that we must manage the short-term performance while maintaining our most important forward investments that will be critical to our long-term future and growth. We are building cash reserves to ensure we have the financial flexibility and security to invest in our future and take advantage of opportunities that present themselves.

I am sure you all have noted that we did not provide guidance in the press release. We have been discussing the topic of quarterly guidance for some time and had come to the conclusion that it often is cross purposeful with maintaining a longer-term view of what we are trying to accomplish. However, as we had

anticipated this to be a more difficult year in terms of the business cycle, we had continued to provide guidance so as to keep you informed of what we were anticipating. Our decision to not provide guidance at this time was based on two factors. First, the third quarter of each fiscal year is by far the most difficult to predict. The holiday season contains several short weeks and many of our customers reset their annual capital plans during this period of time. Second, the fluid and rather cloudy economic environment will exacerbate the normally difficult seasonal pattern. So, we have decided not to suspend guidance, but rather, to discuss with you some of the factors we are evaluating to manage and adjust the business. We hope this will give you insight into the drivers and enable you to make informed analysis about where we are headed.

Let me close by saying thank you to the people of Herman Miller. This past quarter they delivered solid results while dealing with a very significant cost and employment reduction. And, as we look back on the first half of this year, we have accomplished a great deal. In June, we launched a new line-up of storage products, including the award-winning Teneo line. We announced a strategic alliance in China and Asia with POSH that is in the early stages of ramping up. Our Healthcare business has grown rapidly and the combination with Brandrud has exceeded our expectations. We significantly expanded our retail distribution footprint with the addition of Costco. And, the past quarter we introduced several new products at the German Furniture Fair, Orgatec. The head liner of that introduction was the Embody chair. We believe, and the design community appears to agree, Embody represents a step toward function improvement in the art and science of ergonomic seating. So, yes this will be a difficult period, but we have and will continue to put in place the building blocks that will ensure a prosperous future for Herman Miller.

To give you a better understanding of our results and financial strength, I will now turn the call over to Curt.

## 2Q FINANCIAL REVIEW – CURT PULLEN (CFO)

Thank you, Brian. Good morning everyone.

As you read in the press release, we delivered sales and earnings levels within the range of our updated guidance. Our revenues were down 6% from last year and about ½% from the first quarter. Our ability to partially offset the volume decline by lowering our operating expenses enabled us to once again produce a double-digit operating income percentage, as well as continue building strength into our already healthy balance sheet. Our Earnings Per Share performance was strong for the quarter and for the first half of the fiscal year equaled the same period last year. All of this notwithstanding, the business climate today is much different than at the beginning of the quarter. Our orders declined as the quarter progressed, which we'll talk about in a minute.

### Let's look at Sales for the quarter

- Consolidated first quarter sales of \$477 million are lower than last year by \$29 million, or about 6%.
- North American sales of \$389 million marked a decrease of approximately 5% from the prior year. The decline was experienced across the whole of the U.S. contract market, Canada, and Mexico. Last quarter, revenue had continued to grow in Canada and Mexico, but we are now seeing the effect of the economic downturn spill over into these regions as well. Also, the decline in value of both of those local currencies also detracted from our results.
- Consistent with what we experienced last quarter and what is occurring on a macro level, our Non-North American businesses have also felt the impact of the global recession. Sales declined 13% from last year's very strong second quarter. We mentioned last quarter that several large projects in the UK were pushed out into the second quarter and these projects were completed. However, many of the other global markets had revenue declines as business activity levels in these markets began to soften.
- On a positive note, our Healthcare business continued to see strong revenue expansion, both in organic product sales and from the Brandrud acquisition. Our retail business was up slightly from last year, partially due to our expanded distribution activities.
- During the quarter, the U.S. dollar strengthened significantly relative to most other currencies, which reduced our revenue by \$7 million.

Moving on to order rates during the quarter...

- Consolidated orders totaled \$426 million compared to \$573 million last year, a decrease of 26%. Consistent with our comments last quarter, I'll point out that

the price increase implemented in August pulled roughly \$35 million of orders from the second quarter up into the first quarter. If we back out this affect, our orders in Q2 declined about 19% from the same period last year and 8% sequentially from Q1. Similar to our sales numbers, orders were also negatively impacted by \$13 million due to changes in foreign exchange rates. Our pacing through the quarter was consistent in September and October at approximately \$34 million per week and slowed in November to roughly \$30 million per week.

Looking more closely at geographic order patterns...

- Orders in North America decreased about 23% versus the prior year. Some of that decrease was due to the pull ahead effect from the price increase. However, our order levels have fallen across most regions of North America. Also, order rates for our retail business declined during the quarter. We did, however, continue to see growth in orders from our Healthcare business.
- Orders for the Non-North American component of our business decreased 30% for the quarter. This is a significant swing in our business compared to our recent performance and is a consequence of the slowing overall economic environment.

Gross Margin is next

- Our gross margin performance for the quarter ended at 32.6% of sales, which is a decrease from the prior year's margin of 35.6%. Gross margin was negatively impacted by continued higher commodity costs and the loss of overhead leverage as a result of lower sales volume. This was partially offset by the continued efficiency gains by our operations teams, as well as very good spending control.
- Raw material price increases pushed costs higher by \$12 million compared to last year's levels, reducing our gross margin by 240 basis points on this alone. Sequentially, rising material prices increased costs by \$4 million. We have worked through the majority of our agreements with suppliers and given the recent decline in commodities, we do expect to see some improvements in these costs beginning in our third quarter.
- Lower production and sales volumes also had a negative impact in absorbing overhead costs. However, our teams have done an extremely good job of adjusting labor and manufacturing related spending to alleviate some of this impact. Our cost reduction actions recently taken will continue to provide relief.

Moving to our operating expenses and income...

- Operating expenses totaled \$100 million, a decline of \$14 million from last year's second quarter, bringing our operating expenses as a percentage of sales to 21.1%. Once again, our variable model and cost reduction actions have allowed us to move costs lower as our sales volume has declined. Operating income was again very strong at \$55 million, or 11.5% of sales. Going forward, if sales volume continues to decline, this double-digit level of operating income performance will be difficult to maintain.
- The effective tax rate for the quarter was 33.5%, down from the first quarter rate of 35%. Congress extended the R&D tax credit, which enabled us to recognize a tax benefit, thereby lowering our tax rate for the quarter. Our full year rate should be approximately 34%, but is dependent upon income levels going forward.
- Consolidated net income was \$33 million, or 7% of revenue, for the quarter. Earnings Per Share were 60 cents for the quarter, which compares to 67 cents for the same quarter last year. On a YTD basis we have produced EPS of \$1.20, equaling our results at this point last year.

I'll now turn the call over to Joe to give us an update on our balance sheet.

Thanks, Curt

- Regarding the current quarter balance sheet metrics, we grew our cash balance by over \$18 million to end the quarter with \$166 million. Of this amount, approximately \$49 million is located internationally.
- Cash flow from Operations for the quarter totaled \$42 million compared to \$56 million for the same period last year. Capital expenditures of roughly \$8 million are down from the \$10 million spent during the second quarter last year. Our plan is to continue our conservative capital expenditure spend levels for the remainder of the fiscal year. We are targeting \$30 million in expenditures, with \$16 million spent in the first half.
- Adding to our cash reserves, we have \$237 million available on our five-year, \$250 million revolving credit line. Considering our available revolver and our cash reserves, we are confident in our ability to continue funding our strategy and feel well prepared for the uncertain times ahead.
- We completed the accelerated share repurchase program in September with the final settlement of 2.1 million shares. In total, our share count is down 12% from the year ago levels. This did not have a cash flow impact as the payments occurred in prior periods. Our current plan is to conserve cash and hold off repurchasing stock until the business climate becomes more stable.

- We are in compliance with all of our debt covenants and are currently running with a leverage ratio of approximately 1.3 times debt to EBITDA which is toward the low end of our targeted range of 1-2 times debt to EBITDA; but given the current market conditions, is appropriate relative to our capital structure and business strategy.
- Our debt position remains fairly conservative. We do not have any principle amounts coming due in the near future. In fact, our earliest debt layer to renew or repay is \$175 million due in March of 2011.

That's it for now on the balance sheet for this quarter, I will hand it back to Curt

Thanks, Joe

- We have not provided guidance in the press release. We believe the uncertain picture caused by the current economic climate does not provide us with sufficient visibility to confidently publish a sales or earnings range.
- The traditional drivers of demand in our industry (corporate profits, service sector employment, and non-residential construction) have seen or are expected to see declines at least for the near-term. In addition, this time of year always poses a challenge as we enter the holiday season, which is typically slow for our industry. Adding this to the current economic uncertainty leaves us simply without a very good picture of our near-term expectations.
- However, our best two internal indicators of future volumes are order rates and backlog. Our order rates for the quarter declined to a level of about 26% below the same time last year. Our beginning backlog is down approximately 19% from the prior year. We believe these two indicators begin to frame up how to think about our revenue projections for the next quarter.
- From a gross margin perspective, we expect to see some good news starting in the third quarter as a result of lower commodity costs. This should drive a benefit of \$3-\$5 million when compared to the second quarters' results. As expected, this will be offset by lower production volume and our seasonal shutdown over the holidays. However, our cost reduction efforts in the overhead areas will also begin to mitigate the effects of lower volume.
- From an operating expense perspective, as we've discussed, our cost reduction actions have been implemented and we will see the benefits of these actions beginning in January. We expect the actions taken to further reduce our expenses compared to our second quarter rate, which, when combined with our actions taken in the overhead areas, place us on track with our previously described \$60 million annual savings targets. In addition we will also realize reductions in variable expenses, such as warranties, royalties, and sales and distribution costs--if in fact, our volumes are lower.

- It's also important to remember that approximately \$21 million in restructuring charges will also be included in our third quarter results.
- We have great confidence in our ability to continue serving our customers well and, at the same time, in adjusting our costs and maintaining our financial flexibility to meet current and future business conditions.

Let me now turn the call back to the operator and we'll take your questions.

### **Brian - Closing**

Thank you all for joining us today, and for your continued interest in Herman Miller. I also want to express again my appreciation to all Herman Miller employees for their outstanding work and commitment to our shared success. The recent uncertainty in the global markets and difficult view of the next several months challenge all of our stakeholders. We have solid plans and outstanding, committed teams in place to keep our business moving and gaining strategic strength.

We are committed and confident that we have the right long-term vision for Herman Miller, a strong network of business partners to make it a reality, and the financial resources to keep moving forward.

That's all for now, we'll look forward to talking to you again in the next quarter.