

Herman Miller, Inc.
Second Quarter Fiscal 2010
Investor Conference Call
December 17, 2009

The following document is a replication of the notes used in Herman Miller, Inc.'s Second 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.

As we were preparing for today's call, I was reminded of a quote from baseball manager Casey Stengel... *Never make predictions, especially about the future.*

If the past year has taught us anything, it is just how unpredictable the global economy can be. Currently, measures of economic health are mixed, but seem to suggest the beginnings of a rebound. Nonetheless, on our call today, I'll heed Mr. Stengel's advice and avoid offering any significant predictions about the direction of the economy.

These quarterly updates typically focus on the performance of our business over a relatively short time frame. Unfortunately, this can make it easy to miss the progress made under a strategy that is deliberately long-term in nature. In a few minutes I'll turn the call over to Greg and Jeff to review our second quarter results in detail. However, before I do this, I want to share with you a few thoughts on the progress of our business, not just in the past quarter, but over the past year. This perspective is important because it speaks to our capability to achieve remarkable results in times of challenge and uncertainty.

When you think back to where we were just one year ago, it's hard to argue that overall conditions in the market haven't improved. At that time, stock markets around the world were in free-fall, with the Dow at 8,800 on its way to 6,500 in just a few short months. Many global institutions, once revered for their financial strength and commercial success, had either already failed or were on the brink of insolvency – prompting unprecedented government intervention. And still many more businesses, including

ours and others in the industry, were restructuring to rapidly shed costs and weather what would prove to be the worst recessionary period since the Great Depression.

As the economic turmoil unfolded, companies around the world took a defensive posture by cutting not only payrolls and overhead expenses, but also capital investment as a means of conserving cash to ensure liquidity.

In our business, we were compelled to do much of the same. We implemented an aggressive workforce reduction plan that would ultimately impact more than 1,100 employees. Further actions were taken to reduce expenses, including across-the-board wage reductions, modifications to employee benefits, and the consolidation of manufacturing facilities.

As customer demand for our products pulled-back, we committed ourselves to remaining profitable. We established and communicated a goal of maintaining operating margin percentages in the mid-single digits.

Given declining revenues and a general concern in the business community that access to credit markets would remain tight, we took steps to conserve cash and improve balance sheet flexibility. To this end, we lowered our quarterly dividend rate, suspended share repurchase activity, and amended our revolving credit facility. We also de-levered our balance sheet by retiring \$75 million of public debt.

While each of these actions was a necessary defense against an economy in crisis, our response was also balanced with an energetic offensive game plan designed to position us for growth beyond the downturn.

We announced a strategic alliance with POSH, which significantly expanded our distribution footprint in Hong Kong and China. We acquired Nemschoff – a bold move forward in our strategy to strengthen and grow our healthcare business. Finally, we demonstrated our commitment to innovation leadership by introducing 9 new products at our annual industry tradeshow, with awards earned in multiple categories. And for all the challenge we have faced during this period, we were able to generate positive cash flow and meet our goals for profitability.

Today we are hopeful that conditions are beginning to improve. The U.S. economy is growing, corporate profits have improved, and trends in the equity markets are positive. There's plenty of encouraging signs at Herman Miller as well. The Nemschoff integration and our plant consolidations are progressing on schedule, we have continued to effectively manage costs in line with revenue levels, and our newest products are gaining market acceptance. Equally encouraging this past quarter was the seasonal increase in order entry, which as Greg pointed out in the press release, reached the high end of the range we were expecting.

Regardless of the uncertainties that remain in the global economy, we are committed to investing for the long-term and generating solid financial performance along the way. While we can't predict the future, we can point to recent history as evidence of our ability to do just that.

That's it for my introductory comments, which I hope provides some useful and broader context as you analyze our second quarter results. I'll now turn the call over to Greg and Jeff to cover the numbers in more detail.

2Q FINANCIAL REVIEW – GREG BYLSMA (CFO)

Thanks, Brian, Good morning everyone.

Despite the fact that sales and orders remain below prior year levels, we were encouraged this quarter to see a continued pattern of seasonal trends in the business.

Net sales in the second quarter were \$344 million, down 28% from the prior year, and up 6% from the first quarter.

North American sales in the quarter were \$283 million, which is down \$106 million, or 27% from Q2 last year. Declines were experienced across all components of our North American operation, with our healthcare and retail businesses showing the most resilience to the downturn.

Sales in our non-North American business regions reported deeper year-over-year declines. In total, sales of \$49 million were down 32% from last year.

Orders of \$346 million in the second quarter declined \$80 million, or 19%, from the prior year level. The year-to-year comparison of order levels is affected by the timing of a general price increase which became effective in August of last year. The timing of this price change accelerated an estimated \$35 million of orders into the first quarter that would have otherwise entered in Q2 of last year. Adjusting for this impact, the year-over-year decrease in consolidated orders was 25%.

Our retail business posted year-over-year order growth in the quarter, bolstered by improved consumer confidence and our broadening of the sales channel over the past year. Exclusive of the additional orders from Nemschoff, our core healthcare business remains down in comparison to last year. However, the percentage decline has continued to be less than that seen within the contract office sector in North America. And while we posted a 15% year-over-year decline in orders within our non-North American segment this quarter, we were encouraged by the relative strength of order activity within certain regions, including continental Europe, Asia, and South America.

Sequentially, consolidated orders in the second quarter improved 7% from their first quarter level, reflecting a seasonal ramp-up in business levels, which typically pick-up in Q2 due to year-end spending by the GSA.

Now on to gross margin...

Our second quarter gross margin was 32.2% of sales compared to 32.6% in the same quarter last year. Despite a decrease in consolidated sales of \$133 million, the decline in margin was limited to only 40 basis points. The loss of leverage from lower sales

volume and higher discounting was largely offset by lower commodity and fuel prices versus the prior year. We have also continued to realize significant savings in labor and overhead spending relative to year-ago levels as a result of the restructuring actions implemented over the past several months.

The benefit from lower material costs was primarily seen in the categories of steel and aluminum components. Lower material prices drove an estimated \$10 million reduction in cost of goods sold relative to the second quarter of last year. Fuel prices in the quarter, which on average were 22% lower than the same period last year, helped offset the loss of volume.

Manufacturing overhead expenses were again lower across virtually every category this quarter compared to last year. The largest reductions continue to be employee wages and benefits, which have been markedly reduced over the past year as a result of our restructuring efforts. Given the decline in the top line, however, overhead expenses as a percent of sales were 190 basis points higher than Q2 of last year.

On a sequential comparison, gross margin in the quarter decreased 100 basis points from the first quarter level of 33.2%. As expected, competitive pricing pressures negatively impacted us this quarter. Higher price discounting reduced our second quarter gross margin by an estimated \$3 million from the first quarter level.

We also recognized expenses this quarter related to a “wage recovery” provision under our current reduced work week arrangement. This past spring, we instituted an employee furlough program in order to reduce salary and wage expenses by 10% across the business. Employees affected under this arrangement have an opportunity to earn back their lost wages if the company achieves a certain level of profitability in a given quarter. Payments under the program cannot exceed the amount of wages foregone as a result of the reduced work schedule. Based on our operating results in the second quarter, we recognized approximately \$2 million within cost of goods sold associated with this program - a payment of 8.4% of base compensation. No such expenses were recognized in the first quarter of this fiscal year.

Moving on to operating expenses and income...

Operating expenses in the second quarter were \$90 million, down 10% from \$100 million reported in the same quarter last year. Expenses in the current quarter included approximately \$3 million related to the wage recovery program and a full 13-weeks of operating costs for Nemschoff.

On a sequential-quarter comparison, operating expenses in the second quarter were almost \$1 million lower than the first quarter amount. Recall that expenses in the first quarter of this year included \$4.5 million for the premium paid on our debt tender offer, but did not include any costs related to wage recovery.

Restructuring expenses in the second quarter of approximately \$2 million related to employee severance benefits and move costs associated with our previously announced factory consolidation projects.

Operating earnings in the second quarter were \$19 million or 5.4% of sales. Excluding the impact of restructuring expenses, adjusted operating earnings in the quarter were \$21 million or 6.1% of sales.

Our effective tax rate in the quarter was 34% compared to 33.5% in the prior year second quarter. Through the first half of fiscal 2010, our effective rate was only 21% - driven downward by a 0.7% income tax benefit reported in Q1 as a result of the closure of IRS audits for the years 2005 through 2008. We expect the full-year effective tax rate to be between 27% and 29%.

Net income in the quarter was \$10 million or \$0.17 per share. Excluding the per-share impact of the restructuring charges, adjusted EPS in the quarter was \$0.20.

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

[JEFF STUTZ, VP INVESTOR RELATIONS & TREASURER]

Thank you, Greg. Good morning everyone.

Our cash and equivalents balance increased \$21 million this quarter, ending the period at \$122 million. Of this amount, approximately \$50 million is held within our international entities.

Cash flow from operations in the quarter was \$27 million. Changes in working capital drove a \$3 million source of funds – the result of increases in AP and accruals for compensation and income taxes, offset in part by investments in AR and inventory.

In the second quarter of last year, cash flow from operations was \$42 million, with changes in working capital driving a \$6 million use of funds in the period.

Capital expenditures in the quarter of \$6 million were down from \$8 million spent in the same period last year. Through the first half of fiscal 2010, capital expenditures have totaled \$11 million, and we are targeting a full-year spend of between \$25 million and \$30 million.

We made just over \$1 million in dividend payments during the quarter. This compares to roughly \$5 million in the second quarter of last year. Also, consistent with our recent practice, we made no outside repurchases during the second quarter.

We remain in compliance with all debt covenants and are currently running at a gross-debt to EBITDA ratio of approximately 2.5-times.

We currently have \$139 million of unused capacity on our revolving credit facility; with the only usage being from outstanding insurance-related letters of credit. Given our current cash balance, ongoing cash flows from operations, and borrowing capacity, we

remain confident that we have sufficient flexibility to meet the financing needs of the business going forward.

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 Q3.

[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 for as we move through the third quarter.

- We generally see a sequential-period decline in sales between Q2 and Q3, attributable to a slowdown in business activity through the holiday period. Last year the pressures of the recession drove our sales in this period down more than 25% - an amount obviously not reflective of normal seasonal business patterns. A more typical seasonal decline has been between 2 and 4%.
- Consistent with this holiday slowdown, we normally see a drop in orders in Q3 relative to Q2. In fact, the decrease in orders is normally greater than that of sales, resulting in an overall decline in the backlog.
- Lower sales and factory production schedules tend to drive lower gross margins in the third quarter relative to Q2 – though sales mix, discounting levels, and commodity pricing clearly factor into our margin performance over any given timeframe.
- We are continuing to keep a close eye on commodity pricing and trends in discount levels, and view these as outlook risks – although at this point we don't anticipate a significant change from the second quarter.
- Through the first half of fiscal 2010, we have done a good job of holding the line on core operating expenses and we intend to remain diligent in managing these costs going forward.

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

[Q&A]

CLOSING – BRIAN WALKER

In closing, I want to extend my personal thanks to the employee-owners of Herman Miller, whose dedication during this past year has been un-wavering. It is their hard work and ingenuity that has brought us through the challenges of the past year, and it is those same qualities that will lead us to new heights in the future. I would like to wish them and everyone on the call, a very safe and happy holiday season.

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