

Herman Miller, Inc.
Second Quarter Fiscal 2012
Investor Conference Call
December 22, 2011

The following document is a replication of the notes used in Herman Miller, Inc.'s Second Quarter Fiscal 2012 Conference Call presentation. Brian Walker, President and CEO; Greg Bylsma, CFO; and Jeff Stutz, Treasurer and VP Investor Relations, 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 the investor relations page at www.hermanmiller.com.

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.

Our second quarter marked a continuation of solid financial performance for the business. I'll open the call this morning with a focus on some of the highlights as well as a few personal observations on the challenging economic backdrop we anticipate as we begin the second half of the fiscal year.

We posted net sales in the period of \$446 million; and in doing so notched our seventh consecutive quarter of year-over-year revenue expansion. Adjusting for the extra week of operations we reported in Q1 of this year, our results also mark our sixth quarter of *sequential* sales growth. Perhaps most encouraging in the numbers was the significant improvement in gross margin, which at 34.1% was the highest we've achieved in three and a half years. Improved gross margin, combined with well controlled operating expenses, helped drive solid year-over-year improvement in both operating margins and earnings per share.

In all, we are pleased with this performance; however there were some challenges along the way. One area that caused us some concern was a lower-than-expected seasonal ramp up in U.S. federal government business. While government order activity did increase in advance of the September year-end,

the magnitude of this rise was significantly less than we saw in the second quarter of last fiscal year - when we benefited from some very large project wins.

As you analyze our results, it's important to keep in mind the particularly difficult year-over-year comparison we faced this quarter. Last year's 34% order increase was the single largest quarterly growth percentage we've reported in at least 12 years. As a reminder, that unusually strong increase was enhanced by some very large government and government-related healthcare projects that were entered as orders in Q2 of last year.

Beyond the federal government, the remainder of our North American commercial sectors (including Healthcare) were stable year-over-year in terms of orders. As we noted in the press release, our non-north American and Specialty and Consumer segments both posted double-digit order growth. This was led by our non-north American business that had order growth of 25%. While the year-over-year comparison in North America was difficult, our sales team continues to be positive about the number of project opportunities and large project wins that we have yet to enter in our order book.

The view ahead is certainly clouded by our Q2 order pacing and – more broadly – the tenuous health of the global economy. BIFMA's most recent forecast revision offers a rather sobering perspective on how this economic uncertainty may impact our industry's near-term growth. In short, the forecast points to a general lack of momentum in the key drivers of furniture demand. This conclusion is hard to argue against given the day-to-day volatility we all see in the economic headlines.

To be sure, global economic fears are running high – fueled by the serious political and economic challenges in Europe. On the other hand, the health of the U.S. economy continues to show signs of improvement, including positive trends in overall employment, manufacturing output, and consumer confidence to name a few. Companies continue to hold large amounts of cash and overall corporate profitability is still strong. These are all positive signs for the economy and for our industry, but the question remains whether they can be sustained. Of course, timing is everything, but we remain optimistic that they can, and ultimately market fundamentals will overcome today's economic fears.

As I commented in last night's press release, regardless of what the macro-economic situation brings in the coming months, our collective focus at Herman Miller remains on implementing the elements of a long-term business strategy. I'll conclude my opening comments with a brief update on two of these.

- As you know, for several months we have been working on putting in place the legal and operational structure necessary to complete the acquisition of Hong Kong-based POSH Office Systems. While this process has proven more time consuming than we initially expected, the delays

have allowed us to make adjustments which we believe will better position us for long-term success in the region. Our POSH project team cleared a number of structural hurdles this quarter, and we now expect the deal to close in the spring.

- The next item relates to a new initiative aimed at leveraging our rich design heritage. Earlier this month, we previewed *The Herman Miller Collection* at the prestigious Art Basel Miami Beach – an annual celebration of contemporary art showcasing artists and dealers from around the globe. The Collection combines a range of products – including both classic and new designs – that will enable customers to furnish collaborative environments in a wide variety of settings. In all, the Collection will include more than 150 thoughtfully designed products, with additional introductions being planned for the future. At its core, *The Herman Miller Collection* is aimed at building and articulating our unique story for architects, designers, and brand-oriented consumers. Needless to say, we're incredibly excited to see its launch and momentum in the months ahead.

These are just two important pieces of a broad strategy unfolding here at Herman Miller. I'm encouraged by the progress our teams are making across a wide range of important initiatives, and I look forward to sharing more of their accomplishments with you in the future.

With that, I'll now turn the call over to Greg to cover our second quarter results in more detail.

[Q2 FINANCIAL REVIEW – GREG BYLSMA, CFO]

Thanks, Brian...

I'll begin with a reminder that our results in the first quarter of this fiscal year included 14 weeks of operations. In discussing our results for the second quarter, I'll quantify this impact where appropriate to assist you in making sequential-period comparisons.

On a consolidated basis, net sales in the second quarter of \$446 million were 8% above the same quarter last year. New orders in the period, which totaled \$440 million, were down 5% on a year-over-year basis. As Brian mentioned, last year's unusually strong order volume made this an especially challenging comparison. This is further amplified by the recent sale of three previously owned dealerships.

Last quarter we reported to you the sale of two owned dealerships. More recently, during our second quarter, we completed the sale of a third dealership - L.A.-based Workplace Resource. Factoring in the effect of these dealer de-

consolidations, pro-forma sales in the second quarter grew almost 11% on a year-over-year basis. On this same measure, pro-forma orders in Q2 decreased approximately 3%.

On a sequential-quarter basis, after adjusting for the extra week, sales in Q2 increased approximately 5% over the first quarter level. Orders in the second quarter were down 2% on a comparable 13-week basis. As a reminder, we believe the timing of our most recent price increase had an impact on order pacing between our first and second quarters. At the beginning of the quarter we increased our general list prices an average of 2.5%. As a result, we estimate that between \$10 million and \$12 million of new orders were scheduled in the first quarter that would have otherwise entered in Q2.

I'll now review sales and order performance by business segment...

Sales for the second quarter within our North American reporting segment were \$322 million. This represents an increase of 5% from the prior year. Factoring in the impact of dealer de-consolidation, sales for the segment were up 8% on a year-over-year basis.

We did see some softening in order activity this quarter – in our business with the U.S. federal government. Beyond this, order pacing remained generally strong across the other North American industry categories. In total, new orders in the second quarter within the North American reporting segment totaled \$306 million; reflecting a decrease of 13% from the same period last fiscal year. Excluding the impact from both dealer de-consolidation and order pull-ahead from the September price increase, orders for the North American segment decreased an estimated 7% from the prior year.

Our international operations again posted strong results, with double-digit increases in sales and orders versus the prior year. While the increases were particularly strong in the U.K. and Asia-Pacific region, we also posted solid year-over-year percentage growth within Central and Eastern Europe. In total, our non-North American business segment reported net sales of \$88 million in the quarter - an increase of 20% from the year ago period. New orders were also strong, totaling \$92 million in the period. This represents an increase of 25% from the second quarter of fiscal 2011.

Sales within our Specialty and Consumer segment, totaled \$36 million in the quarter, were up 14% from last year. Order activity in the second quarter reflected similar year-over-year growth, increasing from \$36 million in fiscal 2011 to \$42 million in the current year.

Moving on to gross margin, which was a definite highlight in the quarter...

At 34.1%, our gross margin this quarter is the highest level we've reported in three and a half years. This represents a 120 basis point increase from the

second quarter of last year. Benefit captured from our recent price increases, net of incremental discounting, drove the majority of the year-over-year improvement. In addition, incentive bonus expenses in the quarter were lower relative to this same period last year. These favorable items were partially offset in the quarter by higher commodity costs, which we estimate increased our second quarter cost of goods sold by approximately \$3 million relative to Q2 of last year.

On a sequential comparison, gross margin in the second quarter increased 40 basis-points from the first quarter of this year. Higher factory production levels in the second quarter contributed significantly to this improvement. Additionally, incentive bonus expenses recorded in the second quarter were lower than the first quarter level.

I'll now move on to operating expenses and earnings in the period.

Operating expenses in the second quarter of \$111 million were \$9 million higher than the same period last year. Almost half of this increase was driven by adjustments made in Q2 of last year to the contingent liabilities associated with the Nemschoff acquisition. These valuation adjustments reduced operating expenses in that period by over \$4 million. The remaining expense increase was driven primarily by variability against higher net sales and increased employee benefits.

On a sequential-quarter basis, operating expenses in the quarter decreased \$1 million from the Q1 level. This was in-line with our expectations coming into the quarter.

Operating earnings this quarter were \$41 million, or 9.1% of sales. This represents a 200 basis point improvement over our adjusted operating margin in Q2 of last fiscal year. It also matches the margin percentage we reported in the first quarter of this year.

The effective tax rate in the second quarter was 33.4%. Looking ahead to the third quarter, we expect our effective rate to be in the range of 32% to 34%.

Finally, net income in the quarter totaled \$23.7 million, or \$0.41 per share on a diluted basis.

With that, I'll now turn the call over to Jeff to give us an update on our cash flow and balance sheet.

[JEFF STUTZ, VP INVESTOR RELATIONS & TREASURER]

Thank you, Greg.

Operating cash flows were significantly affected this quarter by a \$34 million investment in working capital. This was driven almost entirely by an increase in trade receivables. As a result, we reported a net \$400,000 use of cash from operating activities in the period. While this increase in AR significantly reduced our cash flow, we are confident the underlying cause is one of mere timing rather than collectability. During the second quarter of last year, changes in working capital drove a net cash source of \$2 million - with total cash flow from operations in that period equaling \$23 million.

Capital expenditures in the second quarter were approximately \$6 million – an amount that was almost equally offset by the receipt of proceeds from the sale of our L.A. dealership, which closed at the end of October. Dividend payments in the quarter were consistent with the prior year level at \$1.3 million.

We ended the quarter with total cash and equivalents of \$181 million; down slightly from our Q1 ending balance. Approximately \$38 million of this cash is held within our international entities.

On November 16, we completed an amendment of our existing unsecured revolving credit facility. This new 5-year agreement provides us with up to \$150 million in revolving variable rate borrowing capacity. In addition, it includes an accordion feature giving us the option to pursue up to \$75 million in credit subject to the approval of the participating banks.

We remain in compliance with all debt covenants and as of quarter-end our gross-debt to EBITDA ratio was approximately 1.4 to 1; a substantial improvement from the level we were running at this time last year.

The available capacity on the new credit facility stands at approximately \$140 million; with the only usage being from outstanding letters of credit. Given our current cash balance, ongoing cash flows from operations, and renewed borrowing capacity, we are confident in our ability to meet the financing needs of the business moving forward.

That's the balance sheet and liquidity overview for the quarter.

I'll now turn the call back over to Greg to share some thoughts on our Q3 outlook.

[OUTLOOK - GREG BYLSMA]

Thanks, Jeff

- The unusually tough comp. we faced this quarter in order entry will translate to a difficult year-over-year sales comparison in the third quarter. We're expecting net sales in the quarter to be between \$400 and \$420 million. This is based on a number of factors, including the composition of the order

backlog and our current expectations for orders the rest of December and January.

- Our consolidated gross margin percentage is likely to be down sequentially from the second quarter due to an expected seasonal slowdown in factory production. We are currently expecting gross margins to be in the neighborhood of 33% at the mid-point of our sales range.
- Operating expenses in Q3 are expected to be down by approximately \$2 million from the second quarter level.
- Finally, as I mentioned earlier, we expect our effective tax rate in the quarter to be between 32% and 34%.

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

[Q&A]

[CLOSING – BRIAN WALKER]

Thanks for joining us on the call this morning and for your continued interest in Herman Miller. As we reach the close of the calendar year, we wish you and your families a joyful holiday season. That's all for now – we'll look forward to talking to you again in March.