

Herman Miller, Inc.
First Quarter Fiscal 2008
Conference Call
December 20, 2007

The following document is a replication of the notes used in Herman Miller, Inc.'s Second Quarter Fiscal 2008 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. As always, I'll open our presentation with a few introductory remarks and then turn the call over to Curt and Joe for a more detailed review of our results.

As you can tell from our press release, we've been busy this quarter. Our business performance has been strong, and we've made substantial progress in furthering our mission around Performance Innovation. We've previously shared our intent to improve our underlying business performance and to accelerate our investment in our growth initiatives. We said we would move quickly, and we have. We've made significant steps forward in both areas this quarter.

First, let's talk about improving our business performance – we told you there were two areas we were looking to improve upon – increasing our operating income, and utilizing our balance sheet more effectively. At the end of November we described a plan and took specific actions toward a goal of increasing operating income to 13% of sales. These actions are always difficult but we recognized they were necessary to maintain our competitiveness and to enable greater and faster investment in our growth initiatives.

Then yesterday, we outlined a series of actions we are taking to utilize our balance sheet more effectively. We've taken advantage of the current favorable interest rate environments to change our capital structure. We issued on \$200 million in private placement notes and will utilize the proceeds to repurchase our

stock, through an accelerated share repurchase agreement. We are also increasing our syndicated revolver to \$250 million, providing us further financial flexibility to continue to invest in our strategic growth initiatives. Some have asked why now? We, management and the board, are confident that we have a compelling strategy and business model that will create long-term value for our shareholders and employee owners. We have capacity in our balance sheet and, we believe the valuation is at a compelling point to invest.

One of these strategic growth initiatives is the acquisition of Brandrud, a great strategic fit that will expand our healthcare product offer and add management talent and depth to our efforts. Brandrud is a quality manufacturer of healthcare furnishings, with an emphasis on seating products for patient rooms, patient treatment areas, and public spaces such as lobbies and waiting areas. We have shared a successful marketing alliance with them since 2005 and look forward to further gains going forward.

I would like to take a moment to recognize the great work of our employee owners over this past quarter. Not only did we move quickly to get traction on some big initiatives, everyone continued to deliver on our day-to-day objectives. This work, not the big initiatives, is what enabled us to drive solid earnings and EVA growth on a very modest top line improvement. Our commercial teams have done a terrific job of finding and closing opportunities. The organization responded to our call to more closely manage cost and eliminate waste. And, our manufacturing teams continued to improve productivity, and deliver solutions to our customers on time with impeccable quality.

While we accomplished a lot this past quarter, our agenda remains very full. First, our people will be focused on completing the implementation of the changes we recently announced. While the people changes were announced, we still have work to do. Second, we have a very full queue of new products for the core business, International and Healthcare. Many of these products will be introduced over the next 18 months. Third, we will continue to expand our international business which is growing at a very good pace. Last, we will be ramping up our Convia business. This past quarter we opened a showcase facility for Convia in Buffalo Grove, Illinois, just outside of Chicago. This space has really enabled prospective customers to experience the full potential and benefits of Convia. As a result, we have a growing funnel of prospective customers and have begun to supply some inventory to the distribution network. We also continue to get external confirmation that Convia is a big idea with real and compelling customer benefits. Just this past month Architectural Record Magazine recognized Convia as one of the most innovative new products of 2007.

I am sure we will talk more about this during the Q&A, but our outlook has not changed. Given the current economic environment we remain conservative in our assessment of the U.S. market's near-term growth potential. The actions we took this past quarter were, in part, a response to this assessment. Having said that, they were primarily driven by our long term goals. We are very bullish on the long

term potential for Herman Miller and the U.S. office furniture industry. We simply are concerned that the economy faces several headwinds that may result in slower growth. If the short term proves to be more robust than anticipated, we are well positioned to serve our customers needs.

In summary, while we're watchful of the mixed economic climate in the near-term, we are very confident in our long-term strategy and we are taking the necessary steps to secure our future.

Now I will let Curt and Joe take you through the details of our Q2 financial results.....

2Q FINANCIAL REVIEW – CURT PULLEN (CFO)

Thank you, Brian.

There is a lot to talk about this quarter, so let me briefly hit the highlights. As we entered the quarter, we experienced an increase in order-rates which proved to be sustainable throughout the quarter. Overall, we ended our 2nd quarter with order rates having increased by more than 18% from first quarter levels. This increased order activity allowed us to end the quarter with sales above our guidance and also drove a significant increase to our ending backlog.

Gross margin improved by 150 basis points above our 1st quarter as a result of improved pricing as well as material cost improvements. Reduced program spending and overall great cost control reduced operating expenses by 140 basis points from Q1. These elements combined to result in Operating Income of 12.9% for the quarter and drove our earnings per share to a record of 67 cents, up 20% from our previous record of 56 cents one-year ago. Included in these results is a \$5 million restructuring charge, which if removed, would have resulted in Operating Income of 13.9% and EPS of 72 cents, an increase of 29% over the prior year.

We also produced solid cash-flow from operations, increasing over 80% to \$56 million for the quarter.

Let's look at Sales and Orders

- Second quarter sales of \$506 million represented our 16th quarter in a row of year-over-year revenue growth. Although our growth was modest at 1.4%, we exceeded the top of our previously provided guidance of \$475 to \$500 million. This is due both to an increase in weekly order rates, which we began to experience at the beginning of the quarter, as well as continued strong growth in our Non-North American segment.
- Last quarter we described that our order rates were down year-over-year, which prompted caution in our forecast for our 2nd quarter. As we entered the quarter, we experienced an uplift in activity levels that was greater than our normal seasonal pattern. This improved order pacing contributed to our ability to exceed our revenue expectation, since we were able to translate a portion of these orders into shipments during the quarter. On a sequential basis, 2nd quarter sales were up 3% from our 1st quarter.
- North American sales were flat year-over-year as well as sequentially from the 1st quarter. This was primarily the result of slower 1st quarter order rates.
- Non-North American sales continued to experience double digit growth over the prior year, showing growth of 18%. This strong performance was led by the U.K. and China, both of which grew at more than 60% for the quarter.
- We should note that we experienced a benefit to our international sales of approximately \$7 million due to the foreign exchange impact of the weakening U.S. dollar. The weak dollar also increased the operating income of our international businesses by approximately \$1.6 million.
- Orders for the 2nd quarter were the highest level we have seen in seven years...ending the quarter at \$573 million, an increase of over 8% compared to year-ago levels. In fact, throughout our 2nd quarter, as I mentioned, we experienced overall weekly average order-rates that were 18% above our 1st quarter levels.

Let's unpack this a little...

- Orders in North America rose 10% over the prior year and 20% sequentially compared to our 1st quarter. We realized the biggest year-over-year gains in our Eastern and Northern regions of the United States, as well as outstanding increases in Canada and Mexico. Some of this is attributed to seasonal increases in order activity partially due to the federal government, but we also experienced an increase in the volume of non-government large-project business. Sequentially, it is not unusual for us to experience a 7 to 8% increase in order-rates in our 2nd quarter vs. our 1st quarter due to seasonal factors...this year, our uplift of 20% nicely exceeded that trend.

- Orders for the Non-North American component of our business increased over 12%...with the strongest gains in China, Japan, and the U.K.
- The growth in order levels throughout the second quarter resulted in a healthy ending backlog of \$347 million. This is a 7% improvement from year-ago levels and a 24% improvement from the end of our 1st quarter.

Let's go to Gross Margin

- We are very pleased with our gross margin performance for the quarter, which ended at 35.6% and represents an improvement of 150 basis points over the prior year of 34.1%. The strong performance was primarily the result of our ability to capture price improvements as a result of the previously enacted price increase as well as favorable material pricing during the quarter.
- On a sequential basis, gross margin equally improved by 150 basis points from the 34.1% recorded in our 1st quarter. The sequential gains were driven by high production volumes and a mix shift towards more profitable product and service lines.
- Looking forward, we are mindful of recent increases in crude oil prices and the effect that this could have on diesel and other commodities.

Operating Expenses

- Operating Expenses for the quarter totaled \$110 million, or 21.7% of sales, compared to \$112 million, or 22.4% of sales last year. This represents a year-over-year decrease of \$2 million or 70 basis points, with only a modest increase in sales. We experienced year-over-year increases in compensation costs, FAS 123 Stock-based compensation costs, and tax related accruals. These increases were more than offset by lower program spending and overall cost control.
- The cost reductions announced at the end of November resulted in our recording a \$5 million restructuring charge during the quarter. These one-time costs were all related to employee severance.
- Gains in gross margins and operating expenses drove operating income as a percentage of sales up to 12.9% for the quarter -- the highest level we have reported since May of 1999. Excluding the restructuring charges, operating income was 13.9%, a quarterly record for the company.
- Our effective tax rate for the quarter was 34%...which was at the top of the range of 32% - 34% that we were forecasting and was driven higher by our increased net earnings in the quarter.

- Consolidated net income for the quarter was \$41 million...a 12% increase over the prior year.
- And...we are extremely pleased with our all-time record Earnings Per Share for the quarter of 67 cents. Again, this includes a 5 cent per share charge from the restructuring activities, which when excluded, would result in EPS for the quarter of 72 cents, a 29% increase over the previous record of 56 cents that we reported at this time last year.

I'll now turn the call over to Joe Nowicki, our Treasurer and Vice President of Investor Relations. Joe has been extremely busy this quarter as we have worked to realign our capital structure. Joe...take us through your work.

Thanks, Curt

- Before I jump into the current quarter metrics, I want to start out with the big news on our capital structure. We've completed the analysis **and** implemented the results of the work we launched with last quarter's press release. We've announced a series of changes designed to increase the utilization of our balance sheet in support of accelerated strategic investments and value enhancement for shareholders.
- First, we've taken advantage of the favorable interest rate environment and have agreed to issue \$200 million in Senior Unsecured Private Placement notes; \$50 million in Senior Notes at 5.94% due in January 2015, and \$150 million in Senior Notes at 6.42% due in January 2018.
- The proceeds will primarily be used to execute an Accelerated Share Repurchase Program to repurchase \$200 million of our stock. We plan to begin the transaction in January of 2008. As most of you probably know, an ASR is a tool used by companies to quickly repurchase a large amount of stock. The company buys a large block of stock from an investment bank that has borrowed the stock from third parties. The bank closes out its stock loan position over time resulting in a purchase price to the company similar to open market purchases. The exact number of repurchased shares will be determined at the conclusion of the agreement. Although the majority of the impact will be included in our share-count by the end of the Company's fiscal third quarter. This approach provides for a degree of certainty in terms of the details of the repurchase by enabling up-front share count reduction for most of the shares which increases our EPS sooner than a purchase of shares over time.
- In addition, we have also replaced our existing \$150 million credit facility with a new \$250 million unsecured revolving credit facility. The new facility will be used to refinance existing debt or provide working capital, and will allow for a higher level of overall financial flexibility as we continue to invest in our strategic growth initiatives.

- These actions demonstrate the confidence we have both in our strategic growth initiatives and the long term strength of our business. They are also designed to complement our newly authorized \$300 million share repurchase and complete the capital structure changes we discussed in our 1st quarter financial release.
- As for the results of this quarter, Cash flow from operations was \$56 million in Q2, compared to \$31 million in the prior year. Higher net income and lower working capital requirements in the current quarter were the main drivers of the year to year change. Working capital requirements drove a use of funds of \$3.0 million in the current year, as compared to \$17 million for the prior year.
- Capital expenditures of \$10 million for the quarter are even with the prior year and well within our planned levels.
- We returned \$5.3 million to shareholders this quarter in the form of stock repurchases, and another \$5.4 million in dividends. In total for the quarter we bought back approximately 200,000 shares at an average price of about \$27 per share. It is important to note that we executed very few share repurchases during the quarter because of a self-imposed blackout due to our operating income and capital structure review work that was underway. As of the end of the quarter we still have approximately \$368 million remaining on our Board authorization.
- We ended the quarter with a cash balance of \$74.2 million. Of this amount approximately \$64.2 million is currently located in our international entities.

Now I will hand it back to Curt

Thanks, Joe

Let's turn to the Outlook for the 3rd quarter of our fiscal year

- We've discussed our strong order entry during the 2nd quarter and we're starting the 3rd quarter with a solid backlog. However, we are remaining somewhat cautious with our mid-term forecast due to the continued mixed macro-economic factors, some of which could affect near-term demand in our industry. Also, our sales teams have done an excellent job of winning certain projects that are currently in our backlog, but which are not scheduled to ship until after our 3rd quarter. Additionally, we are scheduled for a full-week plant shut down over the Holidays. And, although we are expecting to close the Brandrud acquisition sometime in February, it will only have a minor impact on revenues for this quarter. When all of this is combined...we anticipate 3rd quarter sales to be in a range of \$475 million to \$500 million.
- We anticipate continued favorable impact on gross margins from pricing and continued improvements in the margins of our new products. Commodity prices could become a bit more challenging during the quarter and we will also likely lose some leverage due to reduced production volume during the Holiday season. Operating expenses are expected to remain relatively flat as cost reductions will be slightly offset by higher planned program spending. The effective tax rate should again be in the range of 32% to 34%.
- Additionally, as a result of our Accelerated Share Repurchase program, our forecast for the quarter also includes a reduction in our weighted-average shares outstanding of approximately 3 million shares.
- In terms of earnings guidance, we expect earnings per share to be in a range of 55 to 62 cents per share for the 3rd quarter, which would represent an increase of 10% to 24% over the prior year.

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

Brian - Closing

Thank you all for joining us today. In closing, I want to thank you for your sustained interest in Herman Miller throughout this past year. I also want to express my appreciation to all Herman Miller employees for their outstanding contributions in 2007 and particularly in this most recent quarter. Working through the changes to our business was a challenge for all of us, but we're proving we are capable of achieving still greater results. As we look to the new year, we are a stronger company and well positioned to further improve our underlying business performance, accelerate our growth, and utilize our strong balance sheet more effectively. I am extremely thankful this Holiday Season to be a part of Herman Miller..... a great company with a great future.

That's it for now, with our best wishes to you all for a joyful Holiday Season and a prosperous New Year.