**Herman Miller, Inc.**
**First Quarter Fiscal 2019**
**Investor Conference Call**
**September 20, 2018**

The following document is a replication of the notes used in Herman Miller, Inc.'s First Quarter Fiscal 2019 conference call presentation. Andi Owen, President and CEO; Jeff Stutz, Executive Vice President and CFO; and Kevin Veltman, Vice President – Investor Relations and Treasurer, hosted the call. These notes represent an abridged version of the conference call and do not include the Q & A portion. Those wishing to hear the associated 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 at the end of this presentation and 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.

**KEVIN VELTMAN, VICE PRESIDENT – INVESTOR RELATIONS & TREASURER**

Good morning everyone. Welcome to Herman Miller's first quarter of fiscal 2019 earnings conference call. Joining me on the call today are Andi Owen, our President and Chief Executive Officer, and Jeff Stutz, our Executive Vice President and Chief Financial Officer.

We have posted today's press release on the investor relations website at hermanmiller.com. Some of the figures that we'll discuss today are presented on a non-GAAP basis. We've reconciled the comparable GAAP and non-GAAP figures, which we have included in a supplemental data file that can also be accessed on the IR website.

Before we begin our prepared remarks, I will remind everyone that this call will include forward-looking statements. For information on factors that could cause actual results to differ materially from these forward-looking statements, please refer to the earnings press release we issued last night as well as our most recent Annual Report on Form 10-K and any subsequent filings with the SEC.

At the conclusion of our prepared remarks, we will have a Q&A session. We will limit today's call to 60 minutes and ask that callers limit their questions to no more than three to allow time for all to participate.

With that, I'll now turn the call over to Andi.

**ANDI OWEN, PRESIDENT AND CEO**

Thank you, Kevin. Good morning everyone and thanks for joining us.

It's been about a month since joining Herman Miller and it's been an incredible time working with our leadership team to transition into the role. I have had the opportunity engage with key stakeholders across the organization, as well as with a number of dealers and customers.

It is already very clear to me that Herman Miller's rich heritage is grounded in design and innovation excellence, which has enabled us to establish and maintain a world class portfolio of leading brands. What is equally impressive is the talented leadership team with expertise across all elements of our business. These two pillars will continue to drive all opportunities that lie in front of us for Herman Miller, our employees, our valued dealers and customers, and our shareholders.

As I look ahead, I view my role as CEO as setting a direction for the business that both solidifies our near-term growth opportunities *and* sets the stage for an acceleration of our long-term business strategy. I've spent most of my career where business and creativity come together, and I look forward to bringing the perspective I've developed after 25 years at a leading global retailer as we continue to evolve our capabilities and products. Our ultimate success will depend on our ability to make it easy for our dealers and customers to engage with our entire portfolio of brands. This customer-centric mindset has been an integral component of our organizational culture and I am committed to executing a strategy that further advances the objective.

Through the transition period so far, I have spent a significant amount of time with the leadership team reviewing our five strategic priorities.

As a reminder, these priorities include:

- Realizing our vision of what we call the Living Office;
- Delivering on our Innovation agenda;
- Leveraging our Dealer Eco-System;
- Scaling our Consumer business; and
- Driving Profit Optimization

I am happy to report that significant progress has been made during the quarter. Let me spend a few minutes highlighting these areas.

First, the Living Office research-based framework remains core to our contract business and represents a tremendous opportunity to help our customers create compelling and high performing work spaces. This framework drives our innovation roadmap. This quarter, we launched both Cosm and Lino as important additions to our leading line-up of high performance task seating. Cosm sets a new standard for instant and personalized comfort, while Lino brings a great combination of comfort and value. There are also a number of exciting launches on the horizon that will further expand our range of performance seating and desking products, as well as provide new solutions for the fast-growing enclosures category.

Our innovation roadmap extends not only to physical products, but to the *Live OS* digital platform as well. This technology provides real-time data insights to help individuals and organizations improve work space performance and achieve wellness goals. This quarter, we entered pilot installations with a number of leading companies and we are excited by the opportunity this platform provides to engage in deeper ongoing dialogue with our customers. We also advanced our progress on the development of expanded digital sensor technology for conference rooms and soft seating to enable the platform to provide full floorplate coverage and unlock powerful insights for our customers. We expect this new sensor capability to be available later this calendar year.

Turning to the dealer eco-system, we continue to drive meaningful progress making it easier for our dealers to do business with us, as well as expanding our product offering in both core contract furnishings and ancillary designs. An integrated set of digital tools across all of the Herman Miller brands is simplifying the process for our dealers to help customers discover, select and ultimately purchase our products. This quarter, we launched a user-friendly tool that allows dealer designers and sales team members to quickly select products across the entire portfolio and place them in visual presentation tools to share with our end customers. We are expanding the capability of virtual and augmented reality selling tools that allow customers to experience and design their future space without the complexity and cost of physical mock-ups.

We have also been working with our dealers to expand our offering in fast growing product categories. For example, our recently announced investment in Maars Living Walls will help bring the architectural glass offering from this leading European brand to North America. The transaction closed at the end of August and we are working quickly with our dealers to integrate and scale the offering to take advantage of the growing North American enclosures category.

Our ongoing progress scaling our Consumer business was evidenced by organic revenue growth of 13% and operating margin improvement of 200 basis points over last year. We have continued to expand our Design Within Reach footprint. During the quarter, we opened a new studio in Nashville and repositioned our Palo Alto studio to a location three times larger than the previous space. For the full year, we expect to open seven new or expanded DWR studios, along with our third outlet store in Vero Beach, Florida. Improved product mix towards higher margin exclusive designs continued to make a meaningful impact on segment results as well.

Following the June announcement of our investment in HAY, the team is well underway launching the brand in North America. Specifically,

- The North American HAY website is planned to go live on November 1.
- Second, we are on schedule to incorporate a curated selection of HAY products into our Design Within Reach studios by the end of October
- Third, we are building out dedicated HAY studios. The first two of these locations – Portland, Oregon and Costa Mesa, California – are slated to open later this quarter.
- Lastly, the HAY portfolio is currently available to order through DWR's contract business. The process is also underway to localize manufacturing for certain products in North America in the back half of fiscal 2019.

The team and I are very excited about the growth prospects for HAY. In the past, we have projected the North America annual revenue opportunity at $75 million to $100 million in the next five years, and the more we learn, we believe there is potential it could be even bigger. This is in addition to the equity income we will earn for our 33% interest in the existing HAY business outside North America. The collaboration between the Herman Miller and HAY teams has been tremendous thus far and both organizations have a shared set of values that gives me great confidence in the partnership. The addition of this authentic, leading design brand at democratic price points can be leveraged across our global consumer and contract distribution channels to reach a whole new range of customers and support our existing customers more fully.

Lastly, we remain focused on our profit optimization initiative, which was implemented to help fund growth initiatives, offset inflationary pressures and support our corporate operating margin objectives. Since the team unpacked this in detail for you last quarter, I'll simply point out that we continue to make progress against the plans we've laid out. The initial phase, which focused on corporate-wide cost reductions, is nearing completion as we finalize our facility consolidation projects in the U.K. and China. The second Consumer-focused initiative is progressing well, and we expect the benefits from this work to ramp up as we move through the fiscal year. Finally, our most recent work which is centered on profit optimization within our North American contract business has moved from the scoping to implementation stage. In all, we remain highly confident that each of these phases will achieve the goals we've established.

Last quarter, the team also discussed with you the impact of rising steel and other commodity costs. This factor, combined with the more recent announcements of tariffs between the U.S. and China have highlighted the critical role that optimization savings are playing to help offset near-term inflationary pressures. Our tariff exposure is primarily related to components imported by Herman Miller and its suppliers from China. As we've said in previous quarters, we have proactively developed and refined contingency plans to help navigate this situation. In addition to our profit optimization work, we are finalizing our planned price increase scheduled for this upcoming January and have an additional range of pricing actions that we have developed as potential approaches to address these pressures in the near-term.

The Q2 outlook that Jeff will cover later reflects our expectation of the pending tariff impact. Given the recently announced tariff levels and effective dates, we expect a fairly minimal impact on the second quarter. As we look beyond Q2, we've developed mitigation strategies that we believe will offset the impact of these tariffs in the medium to long-term. Additionally, it is important to note that potential further weakening of the Chinese Yuan relative to the U.S. Dollar could also assist to mitigate these pressures going forward. That said, we'll continue to focus on the actions that we can control and put proactive solutions in place.

Before turning it over to Jeff and Kevin, I want to provide just a few key highlights of our first quarter financial performance which I believe underscore the progress we are making.

- Organic sales growth of 8% and order growth of 5% were both broad-based across all of our business segments.
- While gross margin pressures persist, the organization continued to manage core operating expenses well, supported by our profit optimization initiatives.
- We reported EPS on a GAAP basis of $0.60 during the quarter, compared to $0.55 in the same quarter last year. On an adjusted basis, which excludes certain restructuring and other special charges for the quarter, we reported EPS of $0.69 – reflecting a 21% increase in adjusted EPS compared to last year.

In closing, there is a compelling opportunity ahead for Herman Miller to expand our addressable market while continuing to deliver on product innovation and service that our dealers and customers have come to expect. I am confident that our ability to execute will position us to drive positive financial returns, and ultimately deliver value to our shareholders while staying true to our mission of "inspiring designs to help people do great things."

With that, I will now turn the call over to Jeff Stutz.

**FINANCIAL REVIEW – JEFF STUTZ, CFO**

Thanks Andi and good morning everyone.

Before we take a closer look at our consolidated results for the quarter, let me start with some context on the current macro-economic backdrop, which remains generally positive and supportive of further growth.

In the North America Contract space, macro-economic measures, including GDP growth rates, low unemployment, CEO confidence, and architectural billings data continue to point positive. While the new U.S. federal tax regulations have the potential to be an industry tailwind through higher employment levels and increased investment spending, the global tariff situation is creating near-term uncertainty. Putting all of these factors together, the latest BIFMA industry forecast is projecting 6% industry growth in North America for calendar 2019, reflecting a net near-term positive outlook.

Outside of global trade pressures, the ELA regions are generally stable overall. We continue to monitor pockets of political uncertainty – particularly related to the final timeline and resolution of Brexit and the outcome of NAFTA negotiations.

On the consumer front in North America, strong consumer sentiment, which recently reached the highest level since 2000, along with low unemployment, relatively low interest rates, and favorable projections for existing home sales and new home construction make for a generally positive environment.

Moving to our results for the quarter, consolidated net sales in the first quarter of $625 million were 8% above the same quarter last year. Orders in the period of $631 million represented year-over-year growth of approximately 6% on a reported basis and 5% on an organic basis.

Within our North American segment, sales were $344 million in the first quarter, representing an increase of 5% from last year on a reported basis; and an increase of 4% on an organic basis. New orders were $345 million in the quarter, reflecting an increase of 3% on a reported basis and up 2% organically. The order growth in North America this quarter was led by smaller project sizes, with the strongest sectors being Financial Services, Healthcare and Transportation. This was partially offset by lower demand levels in Wholesale, Retail and Communications.

Our ELA segment reported sales of $115 million in the first quarter – an increase of 24% compared to last year on a GAAP basis, and up 22% organically. New orders totaled $125 million which is 15% higher than last year on a reported basis, and an increase of 14% organically. The strong year-over-year order performance was led by growth in India, China, and throughout the EMEA region.

Sales in the first quarter within our Specialty segment were $77 million, an increase of 3% from the same quarter last year on a reported basis and up 2% organically. New orders in the quarter of $80 million were 6% higher than the year ago period. Encouragingly, the increase in orders this quarter was driven by higher demand levels across all four businesses that comprise the Specialty segment.

The Consumer business reported sales in the quarter of $88 million. This is up 6% from the same quarter last year on a reported basis and represents 13% organic growth. These results were driven by strong growth across our studio, catalog, outlet, eCommerce and contract channels. New orders for the quarter of $81 million were 6% ahead of the same quarter last year. Design Within Reach comparable brand sales for the period were 9% higher than last year. While the first quarter for our Consumer business is generally a seasonal low-point from a volume perspective, operating margins have continued to expand. The combination of executing the strategy around studio growth and enhanced product mix along with our profit optimization work are gaining traction. We remain focused on our objective of full year operating margins of 8% to 10% for this business in FY20.

Consolidated gross margin in the first quarter was 36.0%, which was 140 basis points below the same quarter last year. Approximately 60 basis points of this reduction relates to the adoption of new revenue recognition accounting rules, which became effective for us at the start of Q1. Under the new guidance, we are now recording certain dealer payments as expense within cost of goods sold that were previously classified as a reduction to net sales. It's important to note that while this classification change has zero impact on our reported gross profit dollars, it does impact our gross margin percentage. This will be an important point to keep in mind as you view our fiscal 2019 gross margin performance in relation to prior periods.

Beyond the impact of this accounting change, we have continued to experience the impact of increased commodity costs, primarily related to steel, as well as higher freight expenses and other margin pressures within one of our Specialty businesses. As Andi shared earlier, we have identified a range of actions that we are planning to help mitigate these pressures, including the estimated impact of pending tariffs.

Operating expenses in the first quarter were $178 million compared to $166 million in the same quarter a year ago. This amount includes approximately $5 million in special charges primarily associated with the CEO transition and consulting fees supporting our profit enhancement initiatives. The remaining year-over-year increase of $7 million was driven primarily by higher variable selling and employee benefit costs, as well as higher occupancy, and staffing costs related to new DWR studios put in place in the past 12 months.

Restructuring charges recorded in the first quarter related to previously announced facility consolidation projects in both the U.K. and China. These projects are progressing on-schedule and we expect to begin realizing the benefits from improved efficiency and lower costs as we move through the back half of this fiscal year and into the first part of fiscal 2020.

On a GAAP basis, we reported operating earnings of $46 million this quarter, compared to operating earnings of $49 million in the same quarter last year. Excluding restructuring and other special charges, adjusted operating earnings this quarter were $52 million, or 8.4% of sales. By comparison, we reported adjusted operating income of $51 million, or 8.8% of sales, in the first quarter of last year.

The effective tax rate in the first quarter was 20%. This compares to an effective tax rate of 30.5% reported in the same quarter last year. The lower tax rate this quarter primarily reflects the impact of a lower ongoing U.S. tax rate as a result of U.S. tax reform.

Finally, net earnings in the first quarter totaled $36 million, or $0.60 per share on a diluted basis, compared to $33 million, or $0.55 per share in the same quarter last year. Excluding the impact of restructuring and other special charges, adjusted diluted earnings per share this quarter totaled $0.69 compared to adjusted earnings of $0.57 per share in the first quarter of last year.

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

**KEVIN VELTMAN, VICE PRESIDENT – INVESTOR RELATIONS & TREASURER**

Thanks, Jeff.

We ended the quarter with total cash and cash equivalents of $102 million, which reflected a decrease of approximately $100 million from last quarter. This reduction was primarily related to the use of $77 million for the first quarter equity and licensing agreement investments in HAY and Maars Livings Walls. Cash flows from operations in the first quarter were $34 million compared to $19 million generated in the same quarter of last year. The increase in cash flow from operations was primarily driven by a $12 million cash contribution to our U.K. pension plan made in the first quarter of last year.

Capital expenditures were $22 million in the quarter. For fiscal 2019, we anticipate capital expenditures of $90 million to $100 million for the full year, including an estimated $5 million to $7 million to build out the HAY e-Commerce and studio footprint in North America. Cash dividends paid in the quarter were $11 million. As a reminder, last quarter we announced a 10% increase in our quarterly dividend rate that will be paid beginning in October. This increase brings our expected annual payout level to approximately $47 million. We also repurchased $21 million of shares during the quarter.

We remain in compliance with all debt covenants and as of quarter-end our gross-debt to EBITDA ratio was approximately 1.1 to 1. The available capacity on our bank credit facility stood at $165 million at the end of the quarter. Given our current cash balance, ongoing cash flow from operations, and total borrowing capacity, we remain well-positioned to meet the financing needs of the business moving forward.

With that, I'll now turn the call back over to Jeff to cover our sales and earnings guidance for the second quarter of fiscal 2019.

**OUTLOOK – JEFF STUTZ**

Thanks, Kevin.

With respect to the forecast, we anticipate sales in the second quarter of fiscal 2019 to range between $635 million and $655 million. The mid-point of this range implies an organic revenue increase of 5% compared to the same quarter last fiscal year.

We expect consolidated gross margin in the second quarter to range between 35.9% and 36.9%. Again, this estimate includes the impact of adopting the new revenue recognition standard in fiscal 2019 that lowers our fiscal 2019 gross margin percent by approximately 60 basis points. Excluding this change in comparability, our expected gross margin in Q2 at the midpoint is slightly higher than the same quarter last year. I want to re-emphasize that this only impacts our comparable gross margin percentage and has no effect on reported gross profit dollars.

Importantly, this estimate reflects our latest view on commodities and tariffs, as well as the impact of our profit optimization work and other actions to help offset these pressures. As Andi discussed, we do expect the range of actions that we have identified to offset these pressures.

Operating expenses in the second quarter are expected to range between $177 million and $182 million.

We anticipate earnings per share to be between $0.70 and $0.74 for the period. This assumes an effective tax rate in the quarter of 21% to 23%.

With that, I'll now turn the call over to the operator for your questions.

**[Q&A]**

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**CLOSING – ANDI OWEN**

Thank you all for joining today's call. We will, of course, be back to you in December with another progress update. In the meantime, I look forward to meeting or speaking with many of you to hear your feedback and discuss the exciting future we see at Herman Miller. Until then, be well and have a great day.

**Forward Looking Statements**

This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act, as amended, that are based on management's beliefs, assumptions, current expectations, estimates, and projections about the office furniture industry, the economy, and the Company itself. Words like "anticipates," "believes," "confident," "estimates," "expects," "forecasts," "likely," "plans," "projects," and "should," variations of such words, and similar expressions identify such forward-looking statements. These statements do not guarantee future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict with regard to timing, extent, likelihood, and degree of occurrence. These risks include, without limitation, the success of our growth strategy, our success in initiatives aimed at achieving long-term profit optimization goals, employment and general economic conditions, the pace of economic recovery in the U.S. and in our International markets, the increase in white-collar employment, the willingness of customers to undertake capital expenditures, the types of products purchased by customers, competitive-pricing pressures, the availability and pricing of raw materials, our reliance on a limited number of suppliers, our ability to expand globally given the risks associated with regulatory and legal compliance challenges and accompanying currency fluctuations, changes in future tax legislation or interpretation of current tax legislation,  the ability to increase prices to absorb the additional costs of raw materials, changes in global tariff regulations, the financial strength of our dealers and the financial strength of our customers, our ability to locate new retail studios, negotiate favorable lease terms for new and existing locations and implement our studio portfolio transformation, our ability to attract and retain key executives and other qualified employees, our ability to continue to make product innovations, the success of newly-introduced products, our ability to serve all of our markets, possible acquisitions, divestitures or alliances, our ability to integrate and benefit from acquisitions and investments, the pace and level of government procurement, the outcome of pending litigation or governmental audits or investigations, political risk in the markets we serve, and other risks identified in our filings with the Securities and Exchange Commission. Therefore, actual results and outcomes may materially differ from what we express or forecast. Furthermore, Herman Miller, Inc. undertakes no obligation to update, amend or clarify forward-looking statements.