The following document is a replication of the notes used in Herman Miller, Inc.’s First Quarter Fiscal 2020 conference call presentation. Andi Owen, President and Chief Executive Officer; Jeff Stutz, Chief Financial Officer; John McPhee, President - Retail 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.

OPERATOR

Good morning and welcome to Herman Miller’s first quarter earnings conference call. As a reminder, this call is being recorded. I would now like to introduce your host for today’s conference, Kevin Veltman, Vice President of Investor Relations & Treasurer.

KEVIN VELTMAN, VICE PRESIDENT – INVESTOR RELATIONS & TREASURER

Good morning everyone. Joining me today on our first quarter earnings call are Andi Owen, our President and Chief Executive Officer, Jeff Stutz, our Chief Financial Officer, and John McPhee, President of our Retail business.

We have posted yesterday’s press release on our investor relations website at hermanmiller.com. Some of the figures that we’ll cover today are presented on a non-GAAP basis. We’ve reconciled the GAAP and non-GAAP amounts in a supplemental file that can also be accessed on the 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 annual and quarterly SEC filings.
At the conclusion of our prepared remarks, we will have a Q&A session. Today’s call is scheduled for 60 minutes and we 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**

Good morning and thanks for joining us today. I’ll begin the call with highlights of our quarterly results, followed by sharing progress that we’ve made on our strategic priorities.

In the first quarter, we built on our momentum from last quarter by starting the fiscal year with strong growth in sales and orders, led by our North America and Retail businesses. Consolidated sales grew 8% organically over last year while orders were up 7%. We were especially pleased to continue generating positive results in the face of the ongoing global trade tensions impacting the broader geo-political environment. Looking ahead, we are also seeing healthy levels of project opportunities in the pipeline. We’ve been encouraged to have more and more discussions with our customers about how we can assist in their efforts around attracting and retaining talent and help them design flexible, high-performing workspaces. These discussions often highlight the power of the entire Herman Miller group of brands to meet those needs.

Complementing the growth in sales and orders, we posted improved gross margins this quarter, which were up 70 basis points over the same quarter last year. At the same time, our teams continued to manage operating expenses well. The combination of these factors helped drive another quarter of operating margin expansion with reported operating margins 160 basis points above the same quarter last year and adjusted operating margins that were higher by 90 basis points. We reported earnings per share on a GAAP basis of $0.81 during the quarter. On an adjusted basis, earnings per share of $0.84 reflected an increase of 22% over the same quarter last year.

On the strategy front, we remain focused on the four strategic priorities that we shared at our May investor event. Let me summarize them briefly.

- First, we are being very intentional about unlocking the power of One Herman Miller to help leverage our amazing portfolio of brands and global capabilities to their fullest.
- Second, we are building a customer-oriented and digitally-enabled business model aimed at reaching our aspirations in both the contract and retail spaces.
- Third, we have clear opportunities to accelerate profitable growth in each of our business segments.
• And finally, we believe now is the right time to reinforce our commitment to our people, our planet and our communities in a more integrated and deliberate way than ever before.

I’d like to share a few highlights of our progress over the last quarter. Our new digital platform to help our North America Contract dealers visualize our product offerings across all of our brands remains on a steep adoption curve. Our dealer network users created over 50% more projects than last quarter with the new tool and have created over 3,500 projects since it was launched to support their selling efforts. As a next step in this roll-out, we’ll expand this capability to the EMEA region by the end of the fiscal year. This is just one of the ways that we are looking across our entire operation to ensure that we are easy to do business with for our customers, dealers, and architect and design partners.

Our profitability improvement initiative continues to gain traction as one of the key drivers in our aim to accelerate profitable growth. As we evaluate our progress to date, we are seeing greater potential for savings and are increasing our savings target. Our original aim for $30 million to $40 million of gross savings has been revised to a target of $40 million to $45 million. We expect to achieve this run-rate by the end of fiscal 2020 and finished the first quarter with annual run rate savings of $36 million. As a reminder, in addition to supporting bottom line improvement, these savings are also aimed at helping fund growth initiatives and offsetting inflationary pressures such as tariffs.

We have a long history of seeking to create a positive societal impact for our people, planet and the communities that we serve, while at the same time creating value for our customers and shareholders. As a result, we were encouraged by the recent Business Roundtable statement on the purpose of corporations to lead their companies for the benefit of all stakeholders. We have a number of initiatives we’re working on around this priority. For example, we’ve been exploring the potential for a broader plan around reducing (and ultimately eliminating) our use of single-use plastics across our entire organization. As an initial step, we’ve largely eliminated single-use water bottles across our corporate offices.

As Kevin mentioned, John McPhee is joining us today to share more about our growth trajectory for the Retail business, so let me turn the call over to John to provide some additional background.

JOHN MCPHEE, PRESIDENT – RETAIL

Thank you, Andi. With sales growth of over 10% last fiscal year and 12% this quarter, the Retail business has been and continues to be a growth engine for Herman Miller. Importantly, there are a number of initiatives that we believe will help continue that momentum.
First, our new state-of-the-art distribution center in Batavia, Ohio was fully operational at the end of this quarter. While this transition has required short-term investments the past couple of quarters, it better positions our business to provide enhanced service and reliability to our customers over the long-term.

At the same time, the license that we acquired last year for the rights to bring the HAY design brand to North America is gaining traction. After establishing a HAY eCommerce site last year and opening the first two HAY studios in North America, we’ll be opening our third HAY studio early in 2nd quarter, which will be located in the Lincoln Park area of Chicago. HAY’s product line has been an important contributor to our growing Design Within Reach contract business as its furniture designs are a great fit for the residential styles that more offices are including in their floorplans.

In addition to our early launch efforts for the HAY brand, we opened three new Design Within Reach retail studios in the fourth quarter of last year. While still in the early days, these studios represent promising locations for our brand and are off to a good start for us.

One area where we’ve experienced pressure on our gross margins is related to net shipping costs. A major source of this pressure comes from growing consumer expectations that the products they purchase should come with free delivery. Compounding this issue is the fact that over the past several months we’ve experienced increasing costs from freight providers. To help address this, we are currently piloting a range of shipping models where we expect to gain important knowledge over the coming months about how to better position product and delivery pricing for our space. On the cost front, we are in the midst of evaluating strategic sourcing strategies and optimizing our outlet store footprint to minimize shipping costs related to returns.

Finally, we’ve been building new capabilities across our team with recent additions to our sales and marketing leadership team bringing fresh perspectives to pair with our existing knowledge of our market. We are also partnering closely with our Chief Digital Officer to build new digital capabilities, including initial work around optimizing our eCommerce platforms and mapping customer journeys with a goal of finding ways to make the buying process as seamless as possible for our customers.

On the profitability side, our investments in the new distribution center, ramping up HAY and the initial drag on earnings from studios that have been open less than a year and related pre-opening costs were an estimated $5.5 million during the quarter. Even after considering these short-term investments, our operating performance is not where we want it to be and we are laser-focused on driving operating margin improvement in this business. As we continue to lean into scaling this business, we see the opportunity over time for high single digit operating margins for our Retail business. At the same time, I’m energized by the passion that our Retail team brings each and every day to making authentic modern design accessible to our customers. With that Retail overview, I’ll now
turn the call over to Jeff for further discussion of our financial results for the quarter.

FINANCIAL REVIEW – JEFF STUTZ, CFO

Thanks John and good morning everyone.

Consolidated net sales in the first quarter of $671 million were 7% above the same quarter last year on a GAAP basis, and up 8% organically after adjusting for the impacts of year-over-year changes in foreign currency rates. New orders in the period of $677 million were 7% above last year.

Within our North American Contract segment, sales were $458 million in the first quarter, representing an increase of 9% from last year. New orders were $468 million in the quarter - up 10% over last year. Order growth in North America was broad-based across all project size categories and from a sector standpoint was led by Business Services, Information Technology, and the U.S. Federal Government, partially offset by lower demand in the Healthcare and Financial Services sectors.

Our International Contract segment reported sales of $114 million in the first quarter – a decrease of 1% compared to last year on a reported basis and slightly above last year organically. New orders of $117 million were 7% below the same quarter last year on a reported basis and 5% lower organically. It is important to note that the International business faced challenging growth comparisons for the quarter. To put this in perspective, in the first quarter of last year, the International business posted organic sales and order growth of 22% and 14%, respectively. We believe this is important context to consider as you evaluate the performance of our international business this quarter. To be clear, this business has been a key contributor to our growth in recent years both on the top and bottom-lines, and, tough comparisons aside, it factors heavily into our strategy for driving continued growth in the future. With that background, lower year-over-year demand levels were experienced in the EMEA region as well as India, while we’ve seen continued growth in the rest of Asia-Pacific, Mexico and Brazil.

Our Retail business segment reported sales in the quarter of $99 million, an increase of 12% from the same quarter last year. New orders for the quarter of $92 million were 11% ahead of the same quarter last year. Sales growth for the quarter was primarily driven by growth from Design Within Reach Contract, the HAY brand, new studios, and outlet stores. As John mentioned earlier, the first quarter reflected investments in new studio growth, a new warehouse and launching the HAY brand – all initiatives which we expect will support continued sales growth and improved operating margins as we move forward.

From a currency translation perspective, the general strengthening of the U.S. dollar relative to year-ago levels was a head-wind to sales growth this quarter. We estimate the translation impact from year-over-year changes in currency
rates had an unfavorable impact on consolidated net sales of approximately $2 million in the period.

Consolidated gross margin in the first quarter was 36.7%, which reflected an increase from 36.0% in the same quarter last year. This gross margin expansion was driven by manufacturing leverage on higher production volumes, favorable price realization and lower steel costs, along with our ongoing profitability improvement efforts. These benefits helped mitigate gross margin pressures at the consolidated level from tariffs and within our Retail business from increased net freight expenses and transition costs related to the distribution center move.

Operating expenses in the first quarter of $184 million compared to $178 million in the same quarter a year ago. The current quarter includes $400,000 of special charges related to the vesting of key employee incentive expenses associated directly with our CEO transition. By comparison, we recorded special charges totaling $5 million in the first quarter of last fiscal year. Exclusive of these items, the year-over-year increase in operating expenses of $11 million resulted mainly from higher variable selling expenses and expenses in our Retail business related to occupancy, marketing and staffing for new retail studios and the launch of the HAY brand in North America.

Restructuring charges recorded in the first quarter of $1.8 million related to actions associated with our profit improvement initiatives, including an early retirement program initiated last quarter in North America and facility consolidation projects in the U.K. and China.

On a GAAP basis, we reported operating earnings of $60 million this quarter, compared to operating earnings of $46 million in the year ago period. Excluding restructuring and other special charges, adjusted operating earnings this quarter were $62 million, or 9.3% of sales. By comparison, we reported adjusted operating income of $52 million, or 8.4% of sales, in the first quarter of last year.

The effective tax rate in the first quarter was 21%.

Finally, net earnings in the first quarter totaled $48 million, or $0.81 per share on a diluted basis, compared to $36 million, or $0.60 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 $0.84 compared to adjusted earnings of $0.69 per share in the first quarter of last year.

With that, I’ll 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.
Before I review our cash flow and balance sheet highlights, let me start with a brief overview of a recent refinancing transaction. Effective on August 28, we refinanced our existing revolving credit facility. As part of this transaction, we upsized our revolver by $100 million from $400 million to $500 million and extended the maturity of the facility by five years to August of 2024. After this transaction, the available capacity on our facility stood at $265 million at the end of the quarter. With that background, let me move to commentary on the first quarter.

We ended the quarter with total cash and cash equivalents of $160 million, which was slightly higher than cash on hand last quarter. Cash flows from operations in the first quarter were $53 million, reflecting an increase of 60% over the same quarter of last year. Increased earnings were the primary driver of higher operating cash flows in the quarter.

Capital expenditures were $19 million in the quarter. Cash dividends paid in the quarter were $12 million. As a reminder, last quarter we announced an increase of 6% in our quarterly dividend rate that will be paid beginning in October. This increase brings our expected annual payout level to approximately $49 million. We also continued our share repurchase program with repurchases of $8 million during the quarter.

We remain in compliance with all debt covenants and as of quarter-end our gross-debt to EBITDA ratio was approximately 0.9 to 1. 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 2020.

OUTLOOK – JEFF STUTZ

Thanks Kevin.

We expect sales in the second quarter of fiscal 2020 to range between $685 million and $705 million. The mid-point of this range implies an organic revenue increase of 7% compared to the same quarter last fiscal year.

We expect consolidated gross margin in the second quarter to range between 36.6% and 37.6%. This mid-point gross margin forecast is 100 basis points higher than the second quarter of fiscal 2019, reflecting improved production leverage, lower steel prices, and net benefits from our ongoing profit improvement initiatives.

Operating expenses in the second quarter are expected to range between $189 million and $193 million.
We anticipate earnings per share to be between $0.85 and $0.89 for the period, and our assumed effective tax rate is between 21% to 23%.

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

[Q&A]

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. 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.