The following document is a replication of the notes used in Herman Miller, Inc.’s Second Quarter Fiscal 2020 conference call presentation. Andi Owen, President and Chief Executive Officer; Jeff Stutz, Chief Financial Officer; Jeremy Hocking, President - International 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 second 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 second quarter earnings call are Andi Owen, our President and Chief Executive Officer, Jeff Stutz, our Chief Financial Officer, and Jeremy Hocking, President of our International 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. With that, I'll now turn the call over to Andi.

**ANDI OWEN, PRESIDENT AND CEO**

Good morning and thank you for joining us. Today I'll begin by highlighting our quarterly results, followed by sharing our latest progress towards our strategic goals. I'll then turn it over to Jeremy to provide an update on our International business, after which Jeff and Kevin will cover the financial results of the quarter in detail.

Sales for the second quarter were 3% higher than last year, led by our North America and Retail businesses. This revenue performance fell short of the expectations we set coming into the quarter, driven by softer than anticipated order patterns, which ultimately closed the period down 4% from last year's level. To be clear, while we are never happy to deliver growth rates below the goals we set, our view of the business, and our near-term opportunities, remains bullish. This industry is inherently project-driven, and this past quarter we felt the impact of a pause in project activity. This was aggravated by a very difficult growth comparison in the second quarter of last year, when we posted orders of $705 million - an all-time record for our business, representing year-over-year organic growth of 10%. In fact, that amount exceeded the next highest volume quarter in our history by over $25 million.

When establishing our guidance at the start of the quarter, we considered these tough comparisons. What we didn’t anticipate was the impact that the mixed macro-economic and geo-political environment in recent months would have on project activity. U.S.-China trade tensions and Brexit uncertainty persist, and in North America, the architectural billings index and BIFMA industry order levels have been choppy in recent months. We believe these factors contributed to lower than expected demand levels in the quarter.

To be sure, the order patterns we experienced in Q2 have a direct impact on our revenue guide for the upcoming quarter. With that said, as we look further ahead, we remain encouraged on our outlook for the business. Our sales force is optimistic given the number of new business opportunities they see on the horizon, customer visit activity increased sequentially this quarter over last, and overall order levels have improved nicely in the first two weeks of the third quarter. We also note that job growth, unemployment levels and consumer spending remain strong, which collectively are positive factors for our business. Beyond the next quarter, we continue to believe our strategic priorities position us well for sustainable profitable growth and I'll share more on our progress in a moment.

Despite the challenges we faced this quarter on the top-line, we are very pleased with the level of profitability we delivered. Consolidated gross margin improved 180 basis points over last year. Favorable price and cost dynamics, along with
our own profitability improvement efforts, are driving these gains. At the same
time, our teams continued to manage operating expenses well. As a result of
these factors, we delivered another quarter of adjusted operating margin
expansion.

We reported earnings per share on a GAAP basis of $1.32 during the quarter. In
addition to certain restructuring and other special charges, GAAP earnings
included a non-cash gain of $30 million related to the acquisition of the remaining
shares of naughtone during the quarter. Excluding those items, adjusted
earnings per share of $0.88 reflected an increase of 17% over the same quarter
last year.

As I mentioned, our four strategic priorities are guiding our long-term value
creation plans. As a reminder, they can be summarized as follows:

- First, we are being very intentional about unlocking the power of One
  Herman Miller to fully leverage our amazing portfolio of brands and global
capabilities.
- Second, we are building a customer-oriented and digitally enabled
  business model in both the contract and retail spaces.
- Third, we have a range of initiatives focused on accelerating profitable
growth in each of our business segments.
- And finally, we are reinforcing 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 this quarter. As you know, we
announced two important transactions during the second quarter. At the end of
October, we acquired the remaining shares of naughtone. Subsequent to the end
of the quarter, in early December, we closed on the purchase of an additional
34% interest in HAY – giving us a majority ownership stake. While Jeremy will
share more about these transactions, I would like to highlight the fact that these
growing design brands are a valuable addition our Herman Miller Group.

We were also honored to receive recognition on several fronts this quarter. Our
efforts around Total Societal Impact were acknowledged by three influential
groups.

- The National Minority Supplier Development Council recognized Herman
  Miller as the 2019 Corporation of the Year for companies under $10 billion
  in sales for our leadership in supplier diversity.
- We were also named to Investor Business Daily’s first ever list of the top
  50 companies for environmental, social and governance values.
- And finally, Newsweek named us one of their Most Responsible
  Companies of 2020.
Similarly, a key element of unlocking the power of One Herman Miller is continuing to drive industry leading innovation across our portfolio of brands and products. Confirming our focus here, TIME Magazine named our Cosm high performance task chair to its list of the 100 Best Inventions of 2019. While we are honored by this recognition, we are also leaning forward on innovation. Our recently launched Headway line of conference tables addresses an important global market opportunity and delivers a sleek, seamless style combined with customizable technology capabilities.

On our goal to better serve our dealers and end customers through digital enablement, we continued to gain traction this quarter on the new digital platform that we’ve branded Scout. We’ve been rolling out new tools for our North American dealer network to help them improve their design and selling processes. We’ve now launched the platform with 100% of our certified dealers in North America, who created over 1,300 projects with the tool during the quarter -- an increase of 150% over the same quarter last year. Building on this success, we expect to launch an International version of this capability by the end of the fiscal year. On the digital front for Retail, we’ve just completed important foundational work to define an extensive number of unique customer journeys through our eCommerce platform. This work will ensure that customer-centric design is at the forefront as we begin meaningful updates to our eCommerce architecture. These are a couple of the ways that we are working across each aspect of our operations to ensure that we are as easy to do business with as possible.

With our focus on accelerating profitable growth, our North America profitability improvement initiative continues to deliver benefits to our bottom line. We are at the low end of our targeted gross savings of $40 million to $45 million by the end of FY20, with run rate benefits of approximately $40 million in the second quarter.

Finally, we’re excited to announce that we have named Debbie Propst as President of Herman Miller Retail. A true industry veteran with a proven track record for building profitable brands through digital transformation, Debbie will lead Herman Miller’s retail business across our portfolio of brands, including Herman Miller, Design Within Reach, and HAY. John McPhee will be stepping down as head of Herman Miller Retail, but he will play an important role over the next few months to ensure a smooth leadership transition. While we look forward to Debbie’s fresh perspective, as well as her knowledge of consumer behavior within the interiors and furniture industry, we also want to thank John for his many contributions and wish him all the best in the future.

As we work across all of our priorities – we remain focused on our ultimate goal of creating inspiring designs to help people do great things. And with that, let me turn it over to Jeremy Hocking who will be share more about our International business.

JEREMY HOCKING, PRESIDENT - INTERNATIONAL
Thank you, Andi. Good morning everyone – it is a pleasure to join you today. International has been a key driver of accelerating profitable growth for our business – we’ve delivered annual organic sales growth of 8% per year over the past five years, including last year where we grew sales at 13% organically with an adjusted operating margin for the business of 12.3%. While the growth in International last year creates more difficult sales growth comparisons this fiscal year, demand levels in the second quarter also reflected the uncertain global picture in our inherently more volatile International business. In addition to global geo-political tensions, we’ve seen a softer economic picture in mainland Europe and Mexico impacting demand in those regions. Helping to mitigate these pressures, we’ve continued to expand our gross margins this quarter – with an increase of 60 basis points over last year. An important contributor to that expansion has been the consolidation of our China manufacturing facilities.

Looking ahead, there are a number of initiatives that we believe position us well for the future. The acquisition of the remaining shares of naughtone helps expand Herman Miller’s global offering in the fast-growing area of collaborative and ancillary products, which we can leverage across our global dealer network. Similarly, increasing our ownership position in HAY directly aligns with our priority to accelerate profitable growth. Through our continued partnership with HAY’s co-founders and creative directors, Rolf and Mette Hay, we will make HAY’s well-designed, high-quality products accessible to contract and retail audiences around the world. We look forward to accelerating this partnership by exploring cross-distribution opportunities between our respective distribution channels.

At the same time, we are leveraging the brands of the Herman Miller Group to bring new products to our regions that will help with one of our key initiatives to expand our share of our global dealer wallet. The addition of the Crosshatch family of seating from Geiger, as well as the Lina chair from Design Within Reach, are great recent examples of unlocking the power of One Herman Miller globally.

We believe our International business will remain an important growth driver for Herman Miller. Not only will we continue to add dealers to our global network, we believe we can gain meaningful share with our existing dealers as we expand our product offerings. At the same time, we have great teams in each of our regions who are leveraging the One Herman Miller mindset to further build our growth orientation in the business.

With that overview of International, I’ll now turn the call over to Jeff for more discussion of our financial results for the quarter.

FINANCIAL REVIEW – JEFF STUTZ, CFO

Thanks Jeremy and good morning everyone.
Consolidated net sales in the second quarter of $674 million were 3% above the same quarter last year. New orders in the period of $675 million were 4% below last year. As Andi mentioned, our order levels this quarter had a difficult comparison to the record levels reported in the year ago period, but we believe demand levels in the near-term were also impacted by persisting macro-economic and geo-political uncertainties.

Within our North American Contract segment, sales were $451 million in the second quarter, representing an increase of 4% from last year on a GAAP basis and an organic increase of 3%. New orders of $435 million in the quarter were 5% lower than last year and reflected fairly broad-based declines across project sizes. From a sector standpoint, we saw lower demand levels in the Business Services, Communications and Healthcare sectors, partially offset by growth in the U.S. Federal Government and Information Technology.

Our International Contract segment reported sales of $118 million in the second quarter – roughly flat with the second quarter of last year. New orders of $126 million were 8% below the same quarter last year on a reported basis and 7% lower organically. It is important to note that the International business faced particularly challenging order growth comparisons for the quarter. To put this in perspective, in the second quarter of last year, the International business posted organic order growth of 15%. Tough comparisons aside this quarter, this business has been a key contributor to our growth in recent years and factors heavily into our strategy for driving continued growth in the future. With that background, lower year-over-year demand levels were experienced in Mexico, Southeast Asia, China and the Middle East. These declines were partially mitigated by new project growth in the U.K. and India.

Our Retail business segment reported sales in the quarter of $105 million, an increase of 6% from the same quarter last year. New orders for the quarter of $113 million were up 3% on a year-over-year basis. Similar to International, Retail also faced a tough prior year comparison with 16% order growth last year. Sales growth for the quarter was primarily driven by growth from Design Within Reach Contract, eCommerce, new studios, and outlet stores.

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 second quarter was 37.9%, which reflected an increase from 36.1% in the same quarter last year. This gross margin expansion was primarily driven by favorable price realization and lower steel costs, along with continued progress in 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. While
we continue to bear higher year-over-year tariff expenses, our results this quarter also reflected a benefit of approximately $1 million related to certain components imported from China that qualified for a retroactively applied exclusion granted by the office of the U.S. Trade Representative. Going forward, we estimate the gross impact associated with all tariffs on Chinese imports will range between $4.5 million and $5.5 million per quarter. Importantly - as we have noted on previous calls, we believe we have fully offset these pressures through a range of actions, including pricing, supplier negotiations and leveraging our profit improvement initiatives.

Operating expenses in the second quarter of $189 million compared to $182 million in the same quarter a year ago. The current quarter included $1 million of special charges primarily related to transaction expenses associated with the HAY and naughtone investments. By comparison, we recorded special charges totaling $5.9 million in the second 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, investment in digital initiatives and expenses in our Retail business related to marketing, as well as and occupancy and staffing for retail studios opened since last year.

Restructuring charges recorded in the second quarter of $4 million related to actions associated with our profit improvement initiatives, including a plan initiated during the quarter to optimize the manufacturing footprint for our Nemschoff operations across both its current Sheboygan facilities and other Herman Miller manufacturing facilities. Restructuring charges recognized this quarter also reflect expenses associated with targeted workforce reductions made within our North American operations.

On a GAAP basis, we reported operating earnings of $62 million this quarter, compared to operating earnings of $53 million in the year ago period. Excluding restructuring and other special charges, adjusted operating earnings this quarter were $68 million, or 10.1% of sales. By comparison, we reported adjusted operating income of $59 million, or 9.1% of sales, in the second quarter of last year.

The effective tax rate in the second quarter was 14.3%. The rate this quarter was reduced by the impact of a $30 million non-taxable gain recognized in connection with the acquisition accounting for naughtone. This gain was recorded within other income. Excluding the impact of this gain, the adjusted effective tax rate for the quarter was 21.6%.

Finally, net earnings in the second quarter totaled $79 million, or $1.32 per share on a diluted basis, compared to $39 million, or $0.66 per share in the same quarter last year. On an adjusted basis, earnings per share this quarter totaled $0.88 compared to adjusted earnings of $0.75 per share in the second 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.

We ended the quarter with total cash and cash equivalents of $177 million, which was $18 million higher than cash on hand last quarter. Cash flows from operations in the second quarter were $90 million, reflecting an increase of 53% over the same quarter of last year. Increased earnings and lower working capital, primarily due to lower accounts receivable, were the key contributors to higher operating cash flows in the quarter.

Capital expenditures were $20 million in the quarter. Cash dividends paid in the quarter were $12 million. Share repurchase activity was modest during the quarter, as our capital deployment was focused on funding the naughtone investment of $46 million and reserving funds for the $79 million required to close the HAY transaction at the start of the third 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. The available capacity on our bank credit facility stood at $266 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 third quarter of fiscal 2020.

OUTLOOK – JEFF STUTZ

Thanks Kevin.

We expect sales in the third quarter of fiscal 2020 to range between $672 million and $692 million. This outlook includes a full quarter of sales for both HAY and naughtone, which on a combined basis are expected to contribute approximately $48 million in revenue for the quarter. From an organic perspective, the mid-point of this range implies a revenue increase of 3% compared to the same quarter last fiscal year.

We expect consolidated gross margin in the third quarter to range between 36.5% and 37.5%. This mid-point gross margin forecast is 130 basis points higher than the third quarter of fiscal 2019, reflecting net pricing realization, lower steel prices, and net benefits from our ongoing profit improvement initiatives. This forecast also contemplates the relative seasonal slowdown in factory production.
that we normally experience around the holiday period and in the month of January.

Operating expenses in the third quarter are expected to range between $194 million and $198 million. This range includes an estimated $14 million from the full-quarter consolidation of both HAY and naughtone.

We anticipate adjusted earnings per share to be between $0.68 and $0.72 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

Thanks for joining us on the call today. We appreciate your continued interest in Herman Miller and look forward to updating you again next quarter. On behalf of all of us at Herman Miller, I want to wish you and your families a wonderful holiday season.

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,
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