**Herman Miller, Inc.**
**Third Quarter Fiscal 2018**
**Investor Conference Call**
**March 21, 2018**

The following document is a replication of the notes used in Herman Miller, Inc.'s Third Quarter Fiscal 2018 conference call presentation. Brian Walker, 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.

## OPENING – BRIAN WALKER, PRESIDENT AND CEO

Good evening and thanks for joining us today. I'll start with a brief review of our results for the quarter, followed by an update on progress during the quarter on our strategic priorities. I'll close with a view of the current economic backdrop before turning it over to Jeff and Kevin for more information on the financial results, including further background on the impact of the new U.S. tax law on our business.

Sales for the quarter demonstrated broad-based growth across each of our business segments, with the ELA and Consumer businesses leading the way with encouraging double-digit increases. At the consolidated level, sales of $578 million were up 10% from last year's level – putting us slightly ahead of our mid-point forecast from back in December. We delivered EPS of $0.49 for the quarter, which included the one-time impact of adopting the new U.S. tax law and a lower statutory U.S. tax rate. On an adjusted basis, which excludes the one-time impact of this adoption and other special charges for the quarter, we reported EPS of $0.50, in line with the expectations we set in December. Adjusted EPS reflected growth of 28% over the same quarter last year driven by a combination of operating performance and a lower normalized U.S. tax rate.

New order patterns across the business were more mixed this quarter, coming in 4% ahead of last year at the consolidated level. On the positive front, our ELA, Consumer and Specialty segments each delivered impressive increases relative to last year. Notably, our Consumer segment posted its third consecutive quarter of double-digit organic order growth, and our International team delivered among the strongest quarters of growth I've seen in my career here at Herman Miller.

Within our North American segment, the demand pattern was less encouraging this quarter. Following a strong first half of the fiscal year marked by above-expectation order patterns, our results this quarter demonstrated the inherently uneven, project-based demand pattern characteristic of our industry at large. As a result, orders within our North American business fell below our expectations, particularly as we moved through the latter weeks of the quarter. This lowered our ending backlog, putting some pressure on our near-term revenue outlook for that segment of the business. While this is a bit disappointing, our overall view of the economic backdrop and our longer-term growth prospects remains unchanged. We continue to position ourselves to compete successfully across the product categories we serve, especially the fastest growing categories in the industry where we are well represented through our collection of brands and portfolios. This is supported by what we continue to see as a generally positive macro-economic environment, bolstered by the recent changes in U.S. tax law, which we believe will ultimately serve as a catalyst for demand in our space through higher employment levels and increased investment spending.

As we have reviewed with you before, our strategy for the past year and a half has focused on five priorities. We continue to see these priorities as the key drivers of sustainable growth in terms of both revenue and profitability.

As a reminder, these core priorities are:

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

The organization continues to advance each of these priorities, and I'd like to highlight the progress we have made in certain key areas this past quarter.

I'll begin with our progress in new product innovation. A major focal point of our R&D efforts in the workplace today centers on two areas. First, we are targeting new products for the more collaborative areas outside of individual workstations; and, second, we are developing technology that fosters a healthier, more delightful end-user experience while at the same time gathering actionable data for organizations around utilization and productivity.

In addition, we are continuing to invest in a range of new seating products slated for introduction over the next year. Seating is an area where we hold a leadership position across our industry, and we intend to stay in front by introducing new reference-setting technologies as well as products aimed at bending the price/performance curve. These products include the recently launched Verus task chair, which is pacing well ahead of our expectations to date.

For some time, we have also explored an area that we are calling *Enclosures*. As the use of private offices has given way to open plan office layouts, our customers are increasingly challenged with how to break up workspaces with some form of enclosure to create topography and places for people to gather. And by the way, we think especially with the recent changes in U.S. tax law, this is going to be very interesting, because non-architectural products will now qualify for immediate deductibility as capital equipment. As part of this effort, we recently launched the Prospect line of products to help meet the customer need for expanded enclosure offerings. Our product and business development teams are also working on more offerings within this category.

Given all the activity in the area of products and innovation, I'd add that we are looking forward to highlighting our newest additions at the upcoming furniture fair in Milan and what we expect will be a really impactful NEOCON tradeshow in Chicago.

Another of our five priorities is to fully leverage our dealer eco-system. Simply put – our goal here is to increase our share of wallet within the contract distribution channel. In workplaces today, the proportion of the average office floor plate dedicated to individual workstations is significantly less than 8 to 10 years ago, when dealers could source 70 to 80 percent of their product from a single vendor. The picture today is much more complex – with as much as 50% of an office floor plate being furnished with a variety of non-traditional ancillary products. Products can be sourced from multiple vendors, creating increased complexity for our dealers and our customers.

In addition to developing products like the enclosures we just discussed, our response to this trend has been to invest in our dealer ecosystem to make it easier for dealers to select products from across the Herman Miller group of brands to put together compelling proposals. In some ways you can think about our business as moving from being more about suburban planning—where we were building the same thing over and over again—to more like urban planning where there is a lot more variety. We not only want to reduce the cost for our dealers to serve their customers, but also to increase our share of their sales.

Last quarter we continued to make great progress expanding our digital tools to help make doing business with us as easy as possible for our dealers. We successfully launched our new visualization and specification tool in Asia, giving us a single global platform for this important capability. We also launched a virtual reality program for our North America sales teams to help customers see their potential workplace designs in a virtual environment. Our enhanced set of tools allows dealers to seamlessly order, specify, and visualize our entire product offering across the Herman Miller group of brands.

The third priority I'll expand upon is the goal of scaling and improving the overall profitability of our Consumer business, which has been growing very fast from a revenue perspective but, to be frank, without the profitability we need. Those of you who have been following us for some time will remember that we acquired Design Within Reach around three and a half years ago. When we bought the company, we described it as being in the early stage of a growth cycle with the key value drivers of larger studios, a greater number of studios, and moving from more purchased product to more proprietary designs to drive up margins. Our objective for the Consumer business is to deliver high single-digit operating margins by Fiscal 2020. This quarter, we were particularly encouraged to see operating margins move to nearly 5% for the quarter as evidence that our strategy is gaining traction.

Our revenue growth in this business over the past year has been strong as new studios have come on line. Today about 25 to 30% of our revenue is coming from studios that have been open less than three years – helping to increase top-line, but putting pressure on profitability as these studios build towards operating at full maturity. As we look to the future, we believe the key to growing profitability in this business centers around four areas of change:

- First, we hired a firm and have spent the last year scoping out how we are going to make this business data driven and operationally excellent. We believe we are going to be able to improve segment operating margins by somewhere between $10 and $20 million through this work. Through a combination of improvements in logistics, pricing changes, supply chain work, and how we schedule and administer promotions, we should start to see some benefits next quarter. Next fiscal year, we will continue to see this work ramp up. Based on our work here over the past quarter, our confidence around this program is growing.
- The second big objective is to shift more of our marketing investments within this business from physical to digital transformation. We are seeing faster growth online than we are in the studios, and we are going to move some of our investments towards the digital side. This will mean slowing

our rate of new studio openings from the pace of openings over the past few years.

- Third, we are working to shift the brand from being more about individual items to a focus on *lifestyle*. If you follow the catalogs, you will have seen that they are focused much more around how people live with the products than what the products are. That is having a big impact on our ability to capture not only an entire room, but in some cases an entire home.
- The last big change in our consumer business relates to expanding our target customer audience which includes a focus on reaching design enthusiasts at an earlier stage of life. Achieving this will require the introduction of new, more accessible products as well as an expanded focus on digital marketing.

Finally, the last strategic priority with notable progress last quarter centers on profit optimization. Beyond the work we are doing within the Consumer business to improve profitability, we continue to focus on profit optimization as a broader corporate priority. A year ago, we announced an initiative targeting gross annual savings of $25 to $35 million by fiscal 2020. You will recall we said the savings would be used to enable us to achieve our operating margin goal of 10%, offset expected inflation and provide funds needed to invest in our strategic priorities. We estimate our annual run rate from this initiative as of the end of their quarter sits at nearly $22 million.

- While we are making good progress on the gross annual savings, to be frank, the recent increases in material costs and the expected continued increases resulting from a strong economy and the prospects for tariffs have reduced the amount we have dropped through to the operating line. As a result, we recently engaged the firm assisting our profit optimization efforts in the consumer business to develop a similar plan for our North American Contract business. It is too early to talk about specific goals, but we believe this work combined with our previous initiative and future price increases will keep us on track for our long-term goal.

- One of our more recently announced cost reduction actions will involve the consolidation of our Chinese manufacturing operations into a single campus in Southern China. This will involve the buildout of facilities and the relocation of people, inventory and equipment. We will begin this process in the fourth quarter. While we are confident this is the right long-term direction, there will be some short-term disruption and elevated cost to serve customers. It is impossible to predict these impacts in advance and we are doing everything possible to minimize the impact.

- Net - while it is difficult to manage the timing of these initiatives with the rapid changes we have experienced in material cost and a competitive pricing environment, we are continuing to make progress on this priority and we are keeping it front and center.

Before Jeff reviews the financial results for our business segments, let me provide some brief context on the current backdrop as we see it.

In addition to the potential tailwind to the industry from tax reform that I discussed earlier, macro-economic indicators, including GDP growth, sentiment measures, service sector employment, and architectural billings continue to support a positive outlook in the North American Contact business.

On the North American consumer front, high consumer confidence, low unemployment, historically low interest rates, and limited unsold home inventory provide a generally supportive backdrop.

The international picture continues to reflect global economic growth, while pockets of risk persist. The U.K. still faces uncertainty tied to Brexit, while economic and political pressures in oil-producing regions including the Middle East contribute to ongoing uncertainty there. The current geo-political situation with North Korea remains an obvious threat. The recently announced plan for U.S. tariffs on imported steel and aluminum and the potential response from other nations is a new development. We are actively developing contingency plans to help navigate this environment. While we do not import any raw steel into North America, we have not been surprised to see the recent increases in domestic steel prices in response to the potential tariffs on imported steel.

As we move forward, we are confident our five strategic priorities will help us continue to create sustainable profitable growth for our shareholders. At the highest level, our global, multi-channel business and the greater Herman Miller community remain focused on our mission to deliver “inspiring designs to help people do great things.”

With that overview, I’ll turn the call over to Jeff to provide more detail on the financial results for the quarter.

**FINANCIAL REVIEW – JEFF STUTZ, CFO**

Thanks, Brian and good evening everyone.

Consolidated net sales in the third quarter of $578 million were 10% above the same quarter last year. Orders in the period of $563 million were nearly 4% above the same quarter last year.

Within our North American segment, sales were $316 million in the third quarter, representing a year-over-year increase of 7%. New orders were $295 million in the quarter, reflecting a decrease of 7% from last year. On an organic basis, we posted year-over-year revenue growth of 8%, while orders levels were 6% lower than the same quarter a year ago. In addition to a rather challenging prior year comparison (our North America segment orders were up 7% last year on an organic basis in the third quarter) the business experienced a relative softening in large and medium project activity this quarter. Sector results for the quarter showed lower order demand in Business Services and Utilities, partially offset by growth in Energy and State and Local Government.

Our ELA segment reported sales of $103 million in the third quarter – an increase of 17% compared to last year on a GAAP basis, and up 11% organically. New orders totaled $114 million which is 33% higher than last year on a reported basis, and up 27% organically. The strong year-over-year organic order growth was broad-based across all regions – with notable strength in the United Kingdom, continental Europe, Australia, Mexico and the Middle East.

Sales in the third quarter within our Specialty segment were $73 million, an increase of 5% from the year ago period. New orders in the quarter of $71 million were up 7% over the same time frame. The increase in orders for this segment was driven principally by strong project activity for Geiger and the Herman Miller Collection.

The Consumer business reported sales in the quarter of $87 million, an increase of 19% compared to last year driven by strong growth across our studio, catalog, eCommerce and Contract channels. New orders for the quarter of $83 million were 14% ahead of the same quarter last year.

While operating earnings for the Consumer segment remain constrained in the near-term by the roll-out of new studio locations that take time to fully mature, we see a path to operating margins near double digits for this business over the long term. During the current quarter, we estimate the unfavorable impact to operating earnings related to the "drag" from new studios that have not reached full maturity was approximately $1.5 million. That said, as Brian noted, the improvement in segment operating margins this quarter to just below 5% represented a meaningful acceleration toward our goal for the Consumer business.

Related to the impact of foreign exchange rates on our top-line, we continue to experience a tailwind from the weakening of the U.S. dollar. We estimate the translation impact from changes in currency exchange rates had a favorable impact on consolidated net sales of $6 million in the quarter.

Consolidated gross margin in the third quarter was 35.6%, which was 160 basis points below the same quarter last year. As noted in recent quarters, we continue to experience unfavorable product mix, increased levels of discounting and costs associated with outsourcing certain high demand products. We are also starting to see increased commodity costs in areas such as steel, aluminum and plastics.

Operating expenses in the third quarter were $168 million compared to $158 million in the same quarter a year ago. This amount includes approximately $4 million in special charges during the quarter primarily associated with the planned CEO transition that we announced in February and consulting fees supporting our profit enhancement initiatives. Excluding these special charges, the increase of $6 million was driven primarily by higher variable selling costs and incentive compensation levels, as well as higher occupancy and staffing costs related to new DWR studios. Helping offset these increases, we continue to make good progress on our cost savings initiative. While a portion of these savings are aimed to offset potential inflation and fund growth investments, we continue to believe this initiative will be a key contributor to our overall target of achieving operating margins at or near 10% by Fiscal 2020. As a reminder, the walk toward our ultimate goals for profitability won't be an even one, as required investments for growth are not necessarily linear with our cost reduction plans.

On a GAAP basis, we reported operating earnings of $38 million this quarter. Excluding special charges, adjusted operating earnings were $42 million, or 7.3% of sales. By comparison, we reported adjusted operating income of $37 million, or 7% of sales, in the third quarter of last year.

The effective tax rate in the third quarter was 19%. This rate included the impact of the recently enacted Tax Cuts and Jobs Act. In addition to the impact of a lower ongoing U.S. tax rate, our effective rate this quarter reflects one-time adjustments related to the re-measurement of current and deferred tax liabilities. This rate benefit was partially offset by a charge related to the deemed repatriation of accumulated foreign earnings. Excluding these one-time items, our adjusted effective tax rate for the quarter was 25.8%. Looking ahead to next year, we expect our full year rate in fiscal 2019 to be 21% to 23%, which reflects a full year of the lower U.S. federal tax rate, anticipated mix of domestic and foreign earnings and the impact of state income taxes. From a cash flow perspective, we expect cash tax savings of approximately $25 million in Fiscal 2019, driven by the lower base rate as well as savings associated with immediate deductibility for some of our planned capital investments.

Finally, net earnings in the third quarter totaled $30 million, or $0.49 per share on a diluted basis. Excluding the impact of special charges and one-time tax adjustments, adjusted diluted earnings per share this quarter totaled $0.50 – an increase of 28% compared to adjusted earnings of $0.39 per share in the third 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 $193 million, which reflected an increase of $78 million from last quarter. This increase is primarily a result of borrowing an additional $75 million on our bank revolving credit facility in January as part of our long-term capital structure. As discussed in prior quarters, we utilized a ten-year interest rate swap to fix our interest rate at 3.2% on this borrowing through January 2028. This transaction was in addition to borrowing $150 million on the revolver to repay private placement notes that matured in January. We also used a ten-year interest rate swap to fix our interest at 2.8% for this tranche of debt. In both cases, we were able to take advantage of the low interest rate environment when we entered into these interest rate swap transactions. Cash flows from operations in the period of $29 million were comparable to $28 million generated in the same quarter of last year.

Capital expenditures were $11 million in the quarter and $51 million year-to-date. We anticipate capital expenditures of $75 million to $85 million for the full fiscal year. Cash dividends paid in the quarter were $11 million and we repurchased $13 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 1.0 to 1. The available capacity on our bank credit facility stood at $167 million at the end of the quarter. Given our current cash balance, ongoing cash flows from operations, and our total borrowing capacity, we continue to be 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 fourth quarter of fiscal 2018.

**OUTLOOK – JEFF STUTZ**

Thanks Kevin….

With respect to the forecast, we anticipate sales in the fourth quarter to range between $590 million and $610 million. We estimate the year-over-year favorable impact of foreign exchange on sales for the quarter to be approximately $6 million. On an organic basis, adjusted for a dealer divestiture and the impact of foreign exchange translation, this forecast implies a revenue increase of 4% compared to last year at the mid-point of the range.

We expect consolidated gross margin in the fourth quarter to range between 36.25% and 37.25%, reflecting a sequential-quarter improvement from production leverage on expected higher sales volumes and channel mix. This estimate also reflects our latest view on commodities, including the recent uptick in steel prices.

Adjusted operating expenses in the fourth quarter are expected to range between $169 million and $173 million.

On a GAAP basis, diluted earnings per share for the fourth quarter of fiscal 2018 is expected to range between $0.49 to $0.53. We anticipate adjusted earnings per share to be between $0.56 and $0.60 for the period. Adjusted EPS excludes an estimated $6 million to $7 million of pre-tax restructuring and other charges expected in the fourth quarter of FY18. This assumes an effective tax rate in the quarter of 23% to 25%, reflecting the lower tax rate from the new U.S. tax legislation.

With that, I'll now turn the call back over to Brian before we take your questions.

## CLOSING/CEO TRANSITION – BRIAN WALKER

Thanks Jeff, I thought I would close on a brief update on our planned CEO transition. As you know, in February, we announced my plan to retire in first quarter of fiscal 2019. The board has formed a committee to evaluate internal and external succession candidates. To help with this work, we have retained a global search firm. While we are early in the process, we continue to believe the successor will be identified early in the first quarter of fiscal 2019. This will leave ample time for an orderly transition. For now, it is business as usual. We are focused on the strategic priorities we discussed earlier and serving our customers.

Now we will turn the call over to the operator for your questions.

**[Q&A]**

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## CLOSING – BRIAN WALKER

Thanks for joining us on the call today. We appreciate your continued interest in Herman Miller and look forward to updating you next quarter. Have a great evening.

**Risk Factors**

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 cost saving 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, the financial strength of our dealers and the financial strength of our customers, our ability to locate new DWR 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, 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.