Herman Miller, Inc.
Fourth Quarter Fiscal 2017
Investor Conference Call
July 6, 2017

The following document is a replication of the notes used in Herman Miller, Inc.'s Fourth Quarter Fiscal 2017 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 in the Company's reports on forms 10-K and 10-Q and other reports filed with the Securities and Exchange Commission.

Also, the financial amounts and references to internal measures mentioned today are unaudited.

OPENING – BRIAN WALKER, PRESIDENT AND CEO

Good morning everyone, and thank you for joining us. I'll begin the call today with a brief overview of our results for the quarter and full year. After that, I'll provide a review of our five key priorities for the business, including accomplishments from last year and highlighting the work that is ahead of us. I'll close with an overview of the current economic backdrop before I turn the call over to Jeff and Kevin to cover the quarter in more detail.

Our results for the quarter reflect progress across a range of initiatives in the business, the net of which helped us deliver year-over-year improvement in adjusted operating margins in each of our business segments. Throughout this past year we've placed a heavy emphasis on positioning our Consumer business on a path toward profitable growth, and we are very pleased with the further steps our team made this quarter – delivering meaningful improvements in net sales and operating margins. More broadly, we began seeing the early benefit of our enterprise-wide focus on cost reductions while at the same time advancing our innovation agenda with a number of important product launches at the NeoCon show in June. Net sales for the quarter were within the range we committed to back in March, and we delivered a very strong finish to the year on the bottom line, as adjusted earnings per share of $0.64 exceeded our expectations through a combination of better than expected gross margin and well-managed operating expenses across the organization.

In total, organic orders in the fourth quarter were essentially flat with last year and reflected a generally mixed demand environment across our group of businesses. Relative strength in the Consumer segment was offset by flat year-on-year activity in North America, and lower overall demand in both the ELA and Specialty segments. It is worth nothing that in the fourth quarter of last year we reported organic order growth of 9% - making this year's comparison particularly difficult at the consolidated level.

For fiscal 2017, net sales of $2.28 billion reflect a record level of sales for our organization. We felt the impact throughout the fiscal year from increased commodity costs – particularly in the area of steel and steel components – as well as heightened competitive price pressures. That said our teams did a fantastic job managing costs, improving efficiency, and advancing key objectives aimed at long-term growth. As a result, we delivered adjusted earnings per share in line with last year.

Reflecting the strength of our current financial position, we announced a 6% dividend increase yesterday. Even more importantly, it reflects our confidence in our strategy to deliver continued growth by leveraging our unrivaled multi-channel capabilities and design and innovation leadership.

As our business and industry continue to evolve, we are constantly focused on staying ahead of the curve and building on the progress we made this year. With the composition of the office floor plate moving toward a broader variety of furnishings, a greater desire for customization from our customers, new technologies and trends towards urbanization and more seamless transactions in the retail world, we have centered our overall value creation strategy on five key priorities as we move into the coming year. Before I share more about our progress this year and next steps for each of these priorities, let me remind you what they are:

1. Scale Consumer
2. Realize the Living Office
3. Leverage Dealer Eco-System
4. Drive Cost Savings and
5. Deliver Innovation

- Let me start with Scaling Consumer. Driving both top line growth and improved profitability through scaling our Consumer business is a top priority for our team. Over the past year, we expanded the real estate footprint of our Consumer business significantly - opening eight new or repositioned Design Within Reach studios plus the Herman Miller flagship location in New York. Collectively, these new locations added roughly 70,000 square feet of incremental selling space to our portfolio. The New York flagship showcases the breadth of our offering through both a retail space and contract showrooms that display the entirety of the Herman Miller group of brands in one place. We also expanded the mix of exclusive product designs, launching over 100 new proprietary products designed for DWR and Herman Miller, which bring with them a higher

gross margin profile. We implemented changes to the way we target and execute our direct-to-consumer catalog mailing program, and the results have been dramatic – marked by significant improvements in virtually every metric – including total circulation, average order value, mailing response rates, and orders per book. Throughout the fiscal year we also demonstrated continued growth across our eCommerce platforms and within our DWR Contract channel, while at the same time optimizing our marketing investments in these areas. Collectively, these efforts led to accelerated revenue growth, as the Consumer business grew sales 16% in the fourth quarter, and 10% for the full fiscal year.

The upcoming year will focus on driving increased profitability. Our history demonstrates that the sales efficiency of new studio locations take time to build toward maturity. As our newest locations ramp up over their first 12 to 18 months, their profitability is expected to improve significantly. We'll also continue to expand the studio footprint – and plan to add approximately 60,000 square feet of incremental selling space next year through six new or re-positioned studios. These studio expansions will be complemented by a continued focus on improving margins through the development of exclusive product designs and leveraging additional sales in our contract, catalog and digital channels. To aid our efforts on this journey, we will engage the help of outside experts specializing in the retail furnishings business. Our goal here is simple: To accelerate our path toward sustained growth and profitability across each of our Consumer channels. These actions bring the opportunity to meaningfully increase operating margins for the Consumer business over the next three years.

- Our second area of focus aims to elevate our research-based Living Office framework to the next level as we help our customers create compelling and high performing workplaces. We continued the evolution of Living Office this year by adding new products and technology solutions, as well as performing research that quantified the positive impact to organizations from applying these concepts. Our showroom at the NeoCon tradeshow in June highlighted the proof points and case studies helping convey the power of this framework.

  The next phase of Living Office will include a range of new products and services designed to help our customers deliver on their business objectives. In addition to seating and a wide variety of products for collaborative spaces, we are also integrating technology more powerfully than ever before. At NeoCon, we demonstrated our capabilities in this area with the launch of Live OS, a digital architecture that provides real-time data insights for individuals and organizations to help improve the performance of their work spaces and support achieving their wellness goals.

- Third, we are working to fully leverage our dealer eco-system. As customer needs have evolved towards a greater mix of collaborative

furnishings, we created dedicated resources this past year under the Herman Miller Elements umbrella to best position the Herman Miller Collection, Maharam, Geiger, Design Within Reach and naughtone brands for further growth in this space.

Moving forward, we need to make it easier for contract customers to find, specify, and order products from any brand within the Herman Miller Group. We rolled out a digital platform to accomplish this goal in Europe last year, and have added the necessary technical talent and expertise to develop and deliver a complete solution for our U.S. contract business in the coming year.

We also continue to evaluate the right structure for our businesses going forward to ensure our offer is best positioned and leverages our inherent capabilities most effectively. As part of this review, we took a deep look at our healthcare strategy and how we approach this customer set with all of our capabilities. Based on this, we made the decision to move the Nemschoff healthcare business from the North America Furniture Solutions segment to the Specialty segment. This change will better leverage the unique skill sets and capabilities of our Specialty business teams – particularly in the areas of craft wood and upholstery. Combining Nemschoff with our other Specialty businesses also provides a strong fit given the focus of these brands on serving the architect and design community. This strategic decision coincided with our annual asset impairment review, where we recorded a non-cash impairment charge of approximately $7 million (or $0.07 per share) related to the write-down of the Nemschoff trade-name carrying value. Nemschoff remains core to our broader strategy. It represents a leading healthcare furniture brand in North America, with a broad dealer network and great products.

- Achieving our enterprise-wide cost reduction objectives represents our fourth priority as a business. Last quarter, we announced a three-year cost savings initiative aimed at achieving between $25 million and $35 million in gross annual cost reductions by fiscal 2020. Our operating expenses during the quarter began to show early results, and we recently announced a facility consolidation in the U.K. that will contribute to these savings through moving our administrative teams to the Melksham manufacturing and distribution facility that was opened last year. The realignment of our organizational structure that we put in place during the third quarter is already contributing to our bottom line and we expect this to be a key enabler of this initiative as we move through fiscal 2018.

  Looking ahead, while these efforts will help offset potential wage and material inflation and help fund a number of growth initiatives, these cost improvements will also play a key role in achieving our goal to increase operating margins consistently above 10% over the next three years. We will continue to update you on our progress as we further develop and plan the supporting initiatives behind this savings target.

- The fifth area of focus for our business is our ongoing commitment to new product innovation. Over the past year, our innovation agenda remained at the forefront as we launched a number of new products, including the remastered Aeron chair with meaningful material and technology innovations that will extend the life of this powerful franchise. Earlier this month we showcased two new products, Prospect, which is a portfolio of semicircular freestanding furniture designed to foster collaborative and individual creativity and the Taper executive chair from Geiger, both of which won Best of NeoCon Gold awards. New products represented 24% of our consolidated revenue this past year, exceeding our internal goal of 20%.

  Product innovation has been a traditional strength at Herman Miller, and we are determined to keep this dimension of our business as a competitive edge. With the recent alignment of creative direction and new product commercialization under common leadership, we will further reduce our time to market and ensure design and development at Herman Miller responds to our customers most critical needs through a robust pipeline of new products and solutions.

Before Jeff reviews the financial results for our business segments, let me provide some context on the current global business environment.

In general, uncertainty has been the driving reality in the near-term. Sales and orders for the North America contract industry remain choppy, and, as a consequence, price competition between industry participants remains intense. With that said, broader macro-economic indicators, including confidence measures, service sector employment, architectural billings and non-residential construction activity continue to suggest a supportive growth outlook in the near term. Our existing strategy, pursued over the past five years, was designed to respond to forces now very much in play — a changing floorplate, emerging work styles, the impact of technology, and the convergence of home and office. While uncertainty persists around the U.S. government’s plans for tax policy change, such reform has the potential to be a meaningful tailwind for our business through higher employment levels and increased investment spending.

On the North America consumer front, positive consumer and homebuilder sentiment point in the right direction. Although existing home sales and new housing starts dipped recently, interest rates remain at historically low levels, and there is a limited inventory of unsold homes.

The global economic picture is fairly stable overall, although there continue to be pockets of disruption like Brexit and the geo-political problems and lower oil prices that complicate the Middle East and other oil producing regions.

Over the past five years, we have focused on expanding our addressable market and building a multi-channel business as a platform to deliver our leading

designs and innovations to new audiences virtually anywhere in the world. We believe our strategy continues to respond well to current and future realities in our markets and is focused on the five priorities to execute on our strategy that I reviewed with you. The team at Herman Miller made good progress on these objectives this past year and has already begun further steps to continue this progress over the coming year, positioning us to deliver sustainable sales and profit growth going forward.

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 morning everyone.

Consolidated net sales in the fourth quarter of $577 million were 1% below the same quarter last year. On an organic basis, which excludes the impact of foreign currency translation and dealer divestitures, sales were 3% higher than last year's level. Orders in the period of $568 million were 6% lower than the same quarter last year. As we outlined last quarter, we believe the timing of our most recent price increase had an impact on order pacing between our third and fourth quarters. At the beginning of February, we increased our general list prices by an average of 2%. As a result, we estimate orders totaling approximately $21 million were pulled ahead into the third quarter that would have otherwise entered during this quarter. On an organic basis, which includes adjusting for this pull-ahead impact, orders were flat compared to the fourth quarter of last year.

Our backlog last year included approximately $9 million in orders related to a dealer that was subsequently divested during this fiscal year. Excluding the impact from that dealer divestiture, the ending backlog in May was 2.5% higher than last year's level.

Within our North American segment, sales were $338 million in the fourth quarter, representing an increase of 1.5% from the same quarter last year. New orders in this segment were $329 million in the quarter, reflecting a decrease of 8% from last year. On an organic basis, we posted year-over-year revenue growth of 4%, while orders were flat compared to last year. Consistent with what we experienced throughout much of the fiscal year, orders in Q4 from project sizes below $1 million were higher compared to last year, while we saw comparatively fewer projects above $1 million in size. Sector results were mixed, showing order growth during the quarter from the Telecommunications, Manufacturing and Federal Government sectors, while there was lower demand from Financial Services, Wholesale and Retail customers.

Our ELA segment reported sales of $93 million in the fourth quarter, reflecting a decrease of 16% compared to last year. New orders totaled $90 million, an

amount 12% lower than the same quarter last year. On an organic basis, which excludes the impact of a dealer divestiture and foreign currency translation, segment sales and new orders were both 5% below last year. The year-over-year order decline was primarily due to lower demand levels in the Middle East, with fewer large project opportunities in this oil-producing region, as well as Europe and China. These lower order levels were partially offset by growth in Mexico, India and Brazil. Our ELA team did an excellent job navigating the unpredictable headwinds globally this year, including significant foreign currency pressures. Despite this, the team made meaningful progress in a number of important strategic initiatives – from scaling our assembly operation in India to expanding our supply and fulfillment capabilities in Brazil. At the same time, this segment posted improved adjusted operating earnings over last fiscal year.

Sales in the fourth quarter within our Specialty segment were $57 million, a decrease of 8% from the same quarter last year. New orders in the quarter of $59 million were 5% lower than the year ago period. Excluding the estimated timing impact of the price increase, organic orders were 3% lower than last year. The decrease in orders was primarily due to lower demand for the Geiger and Maharam businesses, partially offset by continued growth for the Herman Miller Collection.

The Consumer business reported sales in the quarter of $90 million, an increase of 16% compared to last year. This represents our highest ever quarterly sales level for this segment, supported by strong growth across our studio, catalog, eCommerce and Contract channels. New orders for the quarter of $91 million were 8% ahead of the same quarter last year. On a comparable brand basis, DWR revenues for the quarter were up by nearly 19%. Along with delivering strong top-line growth, the Consumer team is making progress in their commitment to driving improved profitability. Operating earnings for this segment have been limited this year by the aggressive roll-out of new studio locations and other investments that we believe are necessary to support our longer-term growth potential. With that said, the business delivered markedly improved operating earnings this quarter over last year. To be clear, we have a lot of work yet to do in this area, but we see the potential is there and remain committed to continuing our focus and momentum as we move into fiscal 2018.

Consolidated gross margin in the fourth quarter was 38.3%, which was 40 basis points lower than the fourth quarter last year. On a year-over-year basis, while we continue to feel the impact of comparatively deeper discounting and higher steel prices, realization from our February price increase and favorable channel mix during the quarter helped mitigate these factors.

Operating expenses in the fourth quarter were $162 million compared to $169 million in the same quarter a year ago. The prior year included approximately $4 million in expenses related to dealers divested this fiscal year and $6 million of non-recurring gains. After adjusting for those items, operating expenses were $9 million below last year due to a variety of factors. We are beginning to realize cost savings as part of the initiative we announced last

quarter to find $25 million to $35 million of savings over the next three years. We also recognized comparatively lower expenses this quarter related to favorable trends for certain employee benefit accruals. These reductions were partially offset by higher occupancy and staffing costs related to new DWR studios.

In addition to the Nemschoff impairment charge described earlier, restructuring actions involving certain workforce reductions that were announced in the fourth quarter resulted in the recognition of severance and outplacement expenses totaling nearly $2 million.

On a GAAP basis, we reported operating earnings of $50 million this quarter. Excluding restructuring and asset impairment charges, adjusted operating earnings this quarter were $59 million, or 10.2% of sales. By comparison, we reported adjusted operating income of $51 million, or 8.7% of sales, in the fourth quarter of last year.

The effective tax rate in the fourth quarter was 29.9%, which included favorable state tax provision to return adjustments and a better than expected mix of income from lower tax jurisdictions. Excluding the impact of the asset impairment expenses, the effective tax rate was approximately 30.9%. This compares to an effective tax rate of 24.9% reported in the same quarter last year that benefitted from a favorable transfer pricing adjustment during the quarter.

Finally, net earnings in the fourth quarter totaled $33 million, or $0.55 per share on a diluted basis. Excluding the impact of restructuring expenses and asset impairment, adjusted diluted earnings per share this quarter totaled $0.64, an increase of 14% compared to adjusted earnings of $0.56 per share in the fourth 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 $96 million, which reflected an increase of $11 million from last year. Cash flows from operations in the period were $80 million, compared to $85 million in the fourth quarter of last year, primarily due to changes in working capital balances. For the full fiscal year, cash flows from operations were $202 million, compared to $210 million in the prior fiscal year.

Capital expenditures were $17 million in the quarter and $87 million for the full year. Cash dividends paid in the quarter were $10 million and $39 million for the full year. The dividend increase we announced yesterday increases our expected annual payout level to approximately $43 million. We repurchased approximately

$7 million of shares during the quarter and $24 million for the full year. As we mentioned last quarter, our target for cash returns to investors, a metric which we measure by interest expense, dividend payments and share repurchases as a percent of trailing three year EBITDA is 30% to 35% of EBITDA. While investing in our business remains our number one priority, based on our strong cash flow generation and consistent with our goals of delivering shareholder value, we expect to achieve this target on an annual run rate basis next year through a combination of the higher dividend level and additional share repurchase activity.

We remain in compliance with all debt covenants and as of quarter-end our gross-debt to EBITDA ratio was approximately 0.8 to 1. The available capacity on our bank credit facility stood at $392 million at the end of the quarter, which includes $150 million set aside to repay the private placement notes that are due in January 2018. As a reminder, we also entered into a 10-year forward starting interest rate swap in September 2016 with a notional amount of $150 million that will be effective in January 2018 and fix our interest rate on this tranche of debt at 2.8%. Shortly after the end of this quarter, we entered into an additional 10-year forward starting interest rate swap with a notional amount of $75 million at a fixed rate of approximately 3.2% that will also be effective in January 2018. This transaction enables us to put financing in place for general corporate purposes that takes further advantage of the current lower interest rate environment. Given our current cash balance, ongoing cash flows from operations, and our total borrowing capacity, we believe 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 first quarter of fiscal 2018.

OUTLOOK – JEFF STUTZ

Thanks Kevin….

With respect to the forecast, we anticipate sales in the first quarter to range between $570 million and $590 million. We estimate the year-over-year unfavorable impact of foreign exchange on sales for the quarter to be approximately $2 million. On an organic basis, adjusted for dealer divestitures and the impact of foreign exchange translation, this forecast implies a revenue increase of 5% compared to last year at the mid-point of the range.

Consolidated gross margin in the first quarter is expected to range between 37.5% and 38.5%.

Operating expenses in the first quarter are expected to range between $166 million and $170 million.

We anticipate earnings per share to be between $0.55 and $0.59 for the period. This assumes an effective tax rate of 30.5% to 32.5%.

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

[Q&A]

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 day.