Good morning and welcome to Herman Miller’s fourth 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 fourth quarter earnings call are Andi Owen, our President and Chief Executive Officer, and Jeff Stutz, our Chief Financial Officer.

We have posted today’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 have 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 would like to 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 as well as our annual and quarterly SEC filings. Any forward-looking statements that we make today are based on
assumptions as of this date and we undertake no obligation to update these statements as a result of new information or future events.

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**

Hello everyone and thanks for joining us. This past quarter was clearly a challenge on many fronts, not just for us as a business, but for all of us as a global community. As we wrestle with the health and economic impacts of COVID-19 and confront racial injustice in our society, I’ve been so proud to see the people of Herman Miller step up to provide necessary equipment for frontline workers and medical professionals and see them show tremendous support for our colleagues and communities in upholding the values of inclusion and equality that we hold dear.

At the end of our third quarter, the COVID-19 pandemic was just beginning to impact regions outside of China. During the fourth quarter, we experienced significant disruption to most of our business including full or partial shut-downs of our major manufacturing locations and retail studios. As we move into a new fiscal year, we are cautiously optimistic that we appear to be on the path of restarting the global economy. Except for limited distribution capacity in two warehouses in Mexico, our manufacturing and distribution facilities are back on-line and all of our retail studios and outlets are open in some capacity. As we move forward, we are focused first and foremost on keeping our employees safe as we adopt new health protocols with our facilities re-opening.

With that as a backdrop, I’ll begin today by outlining the state of our business and then share our perspective on the future. I’ll then turn it over to Jeff and Kevin for additional information on our quarterly results and outlook.

So, where are we now? Clearly, our fourth quarter results reflect the unprecedented challenges from the COVID-19 pandemic that were magnified by the manufacturing and retail facility closures for much of the quarter. As a result, we experienced a year-on-year decline in consolidated net sales of 29%. On an organic basis, excluding the foreign currency translation and the impact of acquiring consolidating interests in HAY and naughtone, sales were 35% below last year.

New orders received in the quarter were down 19% compared to the prior year on a reported basis, and down 25% organically. That said, we can confidently say that our diverse business model has and will continue to enable us to meet our customers where and how they choose to work in the future. Customer demand in our Retail and International segments highlighted the power of this diverse model in the fourth quarter. Despite the broad-based economic disruption caused by virus containment efforts, new orders in our Retail segment were down just 5% compared to the prior year. In particular, our eCommerce platforms
were a bright spot, with orders up 123% over last year. These results demonstrate the success of our digital marketing strategies and the ongoing transformation of our eCommerce platforms. The transformation has included detailed customer journey mapping, the development of rich new content and the expansion of tools to help customers envision their spaces. We also launched a next-generation video chat platform, as well as a pay-by-the-month financing program that helps our customers expand the power of their hard-earned dollar. Given part of our retail assortment for Design Within Reach, HAY and Herman Miller.com is focused on home offices, this was a particularly strong category during the quarter, with orders up 126% over last year in support of “working from home”.

Our International segment also delivered better than company average order results as we continue to leverage opportunities to expand our market share and grow our global dealer network. We were very encouraged to see HAY deliver strong relative performance compared to last year, with orders coming in only 6% below the prior year. Here again, retail activity helped the HAY brand fuel strong relative performance in the period. Moving forward, we expect HAY to be a great addition to our family of brands with its focus on accessible modern design for both office and residential environments.

At the consolidated level, we reported a loss per share of $2.95 in the fourth quarter. This loss included certain restructuring, impairment and other charges during the quarter. On an adjusted basis, which excluded these items, we reported earnings per share of $0.11 for the quarter.

For the full fiscal year, net sales totaled $2.49 billion – a decrease of 3% from last year on a reported basis and an organic decline of 6.5%. On a GAAP basis, we reported a loss per share of $0.15 in fiscal 2020, while adjusted earnings per share totaled $2.61.

As we lead our organization through the crisis and the near-term economic disruption, our past experience navigating difficult periods is serving us well. We acted decisively during the quarter, implementing a range of actions to help maintain our strong liquidity position. We initiated and completed a $50 million private placement debt issuance, temporarily suspended our share repurchase and dividend programs, and drew-down the available capacity on our revolving line of credit as a precautionary measure. At the same time, we made a number of very difficult but proactive adjustments to our cost structure. We temporarily suspended our corporate retirement contributions and FY21 bonus program and also instituted wage and hiring freezes. We also reduced pay for the majority of our salaried associates by 10%. Overall cash compensation for the leadership team was substantially reduced through the combination of salary reductions and the suspension of the bonus program. We also made the difficult decision to further lower our cost structure by reducing the size of our workforce by approximately 400 associates through a combination of voluntary and involuntary terminations.
While we are continuing to suspend sales and earnings guidance given the remaining uncertainty surrounding demand levels, we expect that these actions will contribute to operating income deleverage in the range of 25% to 30%. As part of this deleverage expectation, we do plan to lean-in to digital investments in the near-term that we believe are critical to capitalizing fully on our momentum in this area.

So, what's next for us? Simply put, we must continue to engage with and listen to our customers to aid them in responding to the new realities arising from this pandemic. We know that home offices will play an increasingly more important role in the lives of workers across the globe. Within that redefinition lies opportunity and we believe we can capitalize with the direct to consumer channels that we have built.

As an initial step, we are launching a major redesign of our DWR eCommerce site in July that will be the new standard for our eCommerce experience. The re-launch will significantly improve our customers’ online experience (and our conversion rates) through the use of richer visual content, enhanced wish list functionality and improved search and filtering tools. This work will enable us to reach more customers with the right products to help them re-envision their homes and create an integrated experience for living, working and playing.

We are also moving towards our launch into the gaming space, as we combine our knowledge of ergonomics in partnership with Logitech’s technology expertise. The talented digital team we’ve built over the past eighteen months is developing dedicated websites and we are gaining positive traction with gaming influencers and e-sports teams to support this new opportunity. We expect to release our first product in this category later this summer.

We are having numerous conversations with our contract customers about how we can help them reconfigure their office spaces as they begin returning to work. This includes highlighting our research on how to set-up spaces for optimal performance and safety and showcasing product offerings that can help customers improve physical distancing by adding content and separation to their workspaces. We will also leverage both our leading network of external designers and our in-house design capabilities to move with speed and agility to deliver new solutions.

Against this backdrop, we are more confident in our long-term strategic priorities than ever. By focusing on becoming a customer-centric, digitally-enabled business – not just in some sectors, but across the entire enterprise – we’ll be better enabled and ready to serve our customers. As we look to the future, we believe that the winners in our spaces will have three characteristics:

- A knowledge and research skillset to support customers in re-imagining their shared workspaces
• A broad product assortment capable of serving customer needs across a variety of floorplates and applications, and
• A global, multi-channel distribution capability to reach both business and residential customers

Our strategy positions us well on all of these fronts and we believe we can emerge from this pandemic in a stronger leadership position in the markets that we serve. Our research and sales teams are deeply involved with our customers, helping them to envision their short-term needs as they bring teams back to the office.

At the same time, we believe the office will remain a critical component in driving team performance in the long run and we are helping customers think about the possibilities of how their spaces can drive greater innovation and collaboration. These discussions include helping develop work from home solutions for our corporate customers and exploring the potential for expanded use of hub-and-spoke office location models in the future. Our leading brands and expansive product assortment cover a broad range of categories and price points for both office and residential audiences.

Finally, our global, multi-channel business model, including industry-leading digital capabilities, helps us meet our customers’ needs for where they work, live, learn, heal and play. With great change comes great opportunity for us to explore how we sell, what we sell, and where we sell it.

To conclude my comments, I’d like to remember our friend and colleague, Barry Griswell, who passed away unexpectedly earlier this month. Barry joined our Board in 2004 and helped us navigate some of our most challenging and exciting situations – always pushing us to be better. He was incredibly supportive and helpful to me as I joined the business a couple years ago. He was a life-long champion of inclusion and diversity and gave back in so many ways. He was a role model for me, and many others, and we will miss his tremendous contributions to our Board.

I’ll now turn it over to Jeff for more information on our financial results.

**FINANCIAL REVIEW – JEFF STUTZ, CFO**

Thanks Andi and good morning everyone.

With our near-term demand picture this quarter impacted by the disruption to business operations from COVID-19, consolidated net sales in the fourth quarter of $476 million were 29% below the same quarter last year on a reported basis and 35% below last year organically. Reported orders in the period of $535 million were 19% lower than last year on a reported basis and 25% below the prior year on an organic basis.
Within our North America Contract segment, sales were $276 million in the fourth quarter, representing a decrease of 37% from last year. New orders of $304 million in the quarter were down 31% compared to last year. Order levels for the majority of project size categories and sectors were down compared to last year.

Our International Contract segment reported a 13% decrease in sales to $115 million in the fourth quarter. New orders of $124 million were 11% above the same quarter last year. Reported sales and orders reflect the impact of our recent step acquisitions of HAY and naughtone. On an organic basis, which excludes the impact of these acquisitions, net sales and orders in the International segment decreased 41% and 19%, respectively, from the fourth quarter of last year.

Our Retail business segment reported sales in the quarter of $85 million, which were down 19% compared to the same quarter last year. New orders for the quarter of $107 million were only down 5% on a year-over-year basis. The positive relative performance from our Retail segment highlighted both the importance of the eCommerce channels that we’ve built across the Design Within Reach, HAY and Herman Miller brands as well as the ability to support our customers during a time where they are focused on their home environments.

From a currency translation perspective, the general strengthening of the U.S. dollar relative to year-ago levels was a headwind 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 $3 million in the period.

Consolidated gross margin in the fourth quarter was 34.9% and included a favorable purchase accounting adjustment totaling $900,000 related to initial purchase accounting for our investment in HAY. Excluding this item, gross margin was 230 basis points lower than the 37.0% reported in the same quarter last year. The loss of production leverage in our manufacturing and distribution facilities was the primary driver of the pressure on gross margin during the quarter. This loss of leverage was partially offset by a favorable shift in product and channel mix this quarter given the increase in demand for task seating both in our International and Retail segments.

Operating expenses in the fourth quarter of $155 million compared to $183 million in the same quarter a year ago. The current quarter included $6 million of charges primarily related to discrete costs associated with the COVID pandemic. Excluding these special charges, the year-over-year decrease in operating expenses of $32 million resulted mainly from the proactive moves that we initiated across the organization to manage costs, as well as lower variable costs during the quarter. These decreases were partially offset by the impact of consolidating HAY and naughtone operations this fiscal year.
During the fourth quarter, we recognized pre-tax asset impairment charges totaling $205 million related to goodwill, intangible assets and right of use assets associated with the Design Within Reach, Maharam, HAY and naughtone brands. We typically perform our annual impairment tests for intangibles during the fourth quarter and, due to the impact of COVID on business results, we identified additional indicators of impairment to consider. As a result of these analyses, we determined that future forecasts of sales and profitability no longer supported the carrying value for these assets and recorded non-cash impairment charges to adjust the assets to fair value. Despite these accounting adjustments to fair value, each of these brands remains core to delivering on our broader strategy going forward as they are leaders in their spaces and provide important capabilities to meet the needs of our customers in the future.

Restructuring charges recorded in the fourth quarter totaled $17 million. As Andi mentioned, the program of voluntary and involuntary work force reductions during the quarter was necessary to align our cost structure to better reflect the current demand environment. These costs primarily related to severance, outplacement and other costs associated with the workforce reductions during the quarter.

On a GAAP basis, we reported an operating loss of $211 million this quarter, compared to operating earnings of $57 million in the year ago period. Excluding restructuring, impairment and other special charges, adjusted operating earnings this quarter were $16 million. By comparison, we reported adjusted operating income of $67 million in the fourth quarter of last year.

The effective tax rate in the fourth quarter was 14%. Excluding the impact of adjusted items, the effective tax rate was approximately 48% in the fourth quarter and 22.5% for the full year. The tax rate for the quarter included both provision to return adjustments and the accrual of withholding taxes related to planned repatriation of cash from certain foreign jurisdictions.

Finally, the reported net loss in the fourth quarter totaled $174 million, or $2.95 per share, compared to earnings of $46 million, or $0.78 per share in the same quarter last year. On an adjusted basis, earnings per share this quarter totaled $0.11 compared to adjusted earnings of $0.88 per share 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 $454 million, which was $343 million higher than cash on hand last quarter. This increase was primarily related to drawing $265 million on our revolving credit facility during the quarter out of an abundance of caution and cash proceeds from the issuance of
$50 million of private placement notes during the fourth quarter. These notes bear interest at a fixed rate of 4.95% and mature in May 2030. Given our existing private placement notes that mature in March 2021, the purpose of these notes is to set aside funds to repay those notes when they come due next year, while avoiding the make-whole provisions that would be required in order to prepay those notes. Despite the challenging demand environment during the quarter, we generated positive operating cash flows from operations of $30 million.

Capital expenditures were $13 million in the quarter and $69 million for the full year. As part of managing our cash flow, as we look ahead to FY21, we expect capital expenditures in the range of $50 million to $60 million. We had previously announced the deferral of the quarterly dividend payment to shareholders of record as of February 29, 2020. Due to our strong liquidity position, that dividend, which was originally scheduled to be paid on April 15, 2020, will now be paid on July 15, 2020. The Company will, however, maintain a temporary suspension of future dividend payments and share repurchases given the ongoing uncertainty caused by COVID-19.

We remain in compliance with all debt covenants and as of quarter-end our gross-debt to EBITDA ratio was approximately 2.1 to 1, which is well below the 3.5 ratio required by our lending agreements. If the precautionary excess draw on our bank credit facility of $265 million is excluded from our debt balance, our pro forma gross-debt to EBITDA ratio would be 1.2x. Given our current cash balances and cash flow from operations, we remain well-positioned to weather the near-term market volatility and meet the financing needs of the business moving forward.

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

GUIDANCE COMMENTARY – JEFF STUTZ

Thanks, Kevin. As Andi mentioned, the rapidly changing situation surrounding global mitigation efforts around COVID-19 make it too difficult to estimate the near-term impact on our business. As such, we are not following our typical practice of offering sales and earnings guidance for the first quarter.

With that being said, there are a couple of data points we think are important to emphasize as you consider developing your own revenue estimates for our business in the upcoming quarter.

- As we’ve highlighted, with just a few exceptions, we entered the first quarter with our manufacturing, distribution, and retail operations back on-line. This is important, as from a lead-time perspective it should allow us to respond to customer demand in a manner and timing more consistent with past periods.
- Bearing this in mind, we believe recent demand patterns become the most relevant data points we have to estimate near-term revenue opportunity.
As noted earlier, orders in the fourth quarter at the consolidated level were down 19% from the same period last year.

Through the first three weeks of the first quarter, new orders are down closer to 29%.

As also discussed earlier, while we are not providing sales guidance at this time, as you consider how to model profitability for our business, we expect that the combination of natural variability in our business and the cost actions that we have taken, as well as a fairly stable commodity picture, will result in approximately 25% to 30% operating income deleverage. While this will not necessarily be an even walk from quarter to quarter, we would expect this outcome over time if we experience a recessionary period of similar depth and duration to the past two recessions.

With that additional commentary, I’ll now turn the call back over to the operator and we will take your questions.

[Q&A]

CLOSING – ANDI OWEN

We have demonstrated an ability at Herman Miller to not only weather economic disruption but emerge stronger on the other side and I believe this time will be no exception. A strategy built for the future and the dedication of our employees to put our customers at the center of everything we do provides a strong foundation as we move forward. 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.
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, natural disasters, public health crises, disease outbreaks 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.