

**Herman Miller, Inc.**  
**First Quarter Fiscal 2009**  
**Conference Call**  
**September 18, 2008**

The following document is a replication of the notes used in Herman Miller, Inc.'s First Quarter Fiscal 2009 Conference Call presentation. Brian Walker, President and CEO; Curt Pullen, CFO; and Joe Nowicki, VP Investor Relations and Treasurer, hosted the call. These notes represent an abridged version of the conference call and do not include the Q&A segment of the call. Those wishing to hear the Q&A segment can do so by listening to the archived webcast version of the call on this website.

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. As always, I'll open our presentation with a few introductory remarks and then turn the call over to Curt and Joe for a more detailed review of our results.

With all the events that have occurred in the financial markets recently, I know you all have been very busy. So I plan to keep my comments brief and let Curt get right to the specifics of our quarter's results.

As our results demonstrate, our team did a great job of executing this past quarter. As we expected, overall conditions have been challenging. But, our strategy to diversify revenue enabled us to find areas of growth and our employee owners did a great job of managing costs. We ended the quarter with a modest decline in revenue but managed to increase our operating income percentage to 11.8% of sales, delivered an 11% increase in EPS, and maintained our strong balance sheet. Orders were better than we expected and benefited from the pull-forward effect of our price increase.

While we are very pleased with the past quarter's operating performance and the backlog we take into the next quarter, we understand and are aware that the events of the past few weeks may add to an already challenging environment. You can be sure that we have a firm handle on the levers we control and we will continue to maximize the opportunities presented to us.

The changes we made last November, in anticipation of a tougher environment, are paying real dividends today. This is reflected in our operating results and has ensured we have the head-room to continue to aggressively invest in our long-term strategic plan. As I have stated in the past, our mission is to improve the performance of human habitats. We do this through performance innovation – inventing new and original ways for our customers’ and our own business to perform better. We believe this mission and focus will enable us to diversify our revenue base and find new areas of growth and opportunity in the core market we serve. This past quarter we achieved some significant steps toward this long-term vision:

- First, we completed a strategic alliance with POSH Office Systems. POSH is a leader in the design, manufacture and marketing of office systems and furniture across the Asia Pacific region. The agreement allows Herman Miller and POSH to access each others’ product portfolio and distribution network in the region. This will provide us with both new products and new distribution within Asia.
- Second, we announced a new retail distribution agreement as part of our Herman Miller for the Home business. In looking to continue to diversify and grow in the consumer market we have begun working with Costco, the leading warehouse club retailer whose affluent member demographic aligns closely with our retail customer target.
- Third, we finished the development of the next generation of high performance work seating from Herman Miller, the Embody chair. We’re greatly encouraged by the positive feedback we’ve received through early customer engagements. The official introduction of this chair will be at the Orgatec furniture fair in Germany in October. And, we will begin to take orders for our U.S. customers in the next few weeks.
- The new storage products introduced at NeoCon in June are in production and off to a good start.
- And there are still more innovations in the pipeline for the coming year that will continue to grow our presence across multiple markets and geographies.

We continue to be excited and confident about the long-term future of Herman Miller. And, you can be confident we know how to manage through challenging conditions in a manner that balances the need for short-term results with the need to invest for the long-term.

Now I will turn it over to Curt and Joe to take you through the details of our Q1 financial results.....

## 1Q FINANCIAL REVIEW – CURT PULLEN (CFO)

Thank you, Brian. Good morning everyone.

As you saw in the press release, we're off to a good start to the new fiscal year, particularly in light of the continuing challenging environment around us. We did experience a modest decline in sales for the quarter which was not unexpected, but we are encouraged by the strength in order entry for the quarter --- up 11% over the prior year. Gross margins held very well, considering a \$9 million year-over-year increase in commodity costs. We also did exceptionally well in controlling our operating expenses -- they were down \$8 million from the same quarter last year. All of that drove a 90 basis point improvement in operating income ... up to 11.8% of sales. Combine this with a 10% lower share count; we ended the quarter with EPS up 11%.

### Let's look at Sales and Orders for the quarter

- First quarter sales of \$479 million are slightly lower than last year, but in-line with our expectations and about in the middle of the range of our guidance.
- North American sales experienced a decrease of 2.6% over the prior year. The modest decline was primarily in our U.S. Office Furniture market and is consistent with the challenging macro environment that we all are facing – and which this week's events only highlighted. This was partially offset by substantial gains in our healthcare business which posted improvement from organic growth as well as from the acquisition of Brandrud. In addition, our North American business also saw continued strength in Canada and Mexico.
- In the past few quarters we have been able to offset softer sales in the U.S. with stronger gains in our Non-North American business. That was not the case this quarter. We have several large projects in the U.K. and other parts of our International business where orders were recognized this quarter, but the revenue will not be recognized until Q2. As a result of the timing of these projects we saw a decrease in our Non-North American sales of 4.5% from the prior year 1st quarter. We continued to see growth in most of the emerging markets this quarter, especially in the Middle East, Eastern Europe and South America and we remain confident in our ability to continue to generate growth in the international business. In fact our Non-North American Orders, that I will talk about in a moment, were up 10% for the quarter.
- While the U.S. Dollar has shown recent strengthening...our current quarter benefited by the weaker dollar relative to one-year-ago. Our International sales were boosted by about \$4 million, as a result. About half of that was in the Non-North American business unit...Europe primarily...and the other half in Canada and Mexico. The weaker dollar vs. year-ago levels also increased the operating income of the international businesses by approximately \$1.5 million for the quarter.

- Looking at orders... In total, orders in Q1 were \$535 million compared to \$484 million last year – an increase of 11%. While that’s a solid order performance...it’s important to note that we did implement a price increase which became effective August 4. As is normally the case, we did experience a pull-forward of orders before the price increase took effect. We estimate that amount to be approximately \$35 million of orders entered this quarter that probably would have occurred in Q2. But even after excluding that estimate, we still demonstrated growth in each of our segments.
- On a sequential basis, 1st quarter order rates were up 8% from our 4th quarter total of \$498 million. If we remove the effect of the price increase ...we’re about flat with the 4<sup>th</sup> quarter.

Looking more closely at the order information...

- Orders in North America increased about 9% versus the prior year. Some of that increase here was due to the pull-ahead effect that I just mentioned, although our Healthcare business demonstrated very solid order growth. Our other indicators remain positive as we continue to have a high percentage of our business in projects. In fact we saw an increase in the amount of large projects and an increase in the total volume in our sales funnel. Plus the feedback from our recent annual dealer meetings remains positive.
- As I mentioned earlier, orders for the Non-North American component of our business increased over 10% for the quarter...with the strongest growth coming from Europe and South America. In addition, as Brian talked about in his opening, we have also just forged a strategic international alliance with POSH which should augment our growth in Asia.
- We usually don’t spend much time talking about the “Other” category of revenues --- which primarily contains our Herman Miller for the Home business. This quarter our Home business had a substantial year-over-year increase in orders, partially due to the price increase we’ve already talked about. But in addition, we also started to see the benefit from the new retail distribution alliance with Costco which Brian mentioned as well as increased order activity from our specialty retailers.

Gross Margin is next...

- Our gross margin performance for the quarter ended at 33.9% of sales and represents a decrease of 20 basis points from the prior year of 34.1%. This was truly a significant accomplishment as our margins faced the headwinds of both lower volume leverage and significantly higher commodity costs...while at the same time...not-yet realizing benefit from our recently enacted price increase, which we expect to begin to see in Q3. We were able to offset the incremental costs through our focus on continuous improvement and we also

had a mix shift away from the lower margin service sales we recorded last year during the same period.

- On a sequential basis, gross margin declined from the 34.9% recorded in the 4th quarter primarily due to the commodity cost increases.
- I'll shed some more light on our specific input cost increases. I am sure this story will sound familiar, as it's probably the same thing that you are hearing from all manufacturers. We were successful in holding off the increases until now, but certain of our contracts have been updated with new pricing and this quarter we really started to see the impact of these increased costs. We saw significantly increased costs in Steel, Aluminum, and Fuel for the quarter, which, in-total, increased \$9 million over last year. While these costs cycled-in during the quarter, they ramped-up more significantly in August, as we had expected. Thus, we will likely see a further negative impact as we move through Q2, since these costs will likely be with us for the entire quarter. There is some indication that both steel and oil prices have begun to soften...which would help us in the long-term. However, even with some moderation from current levels...these costs will likely remain significantly above year-ago levels. I'll take you through our forecast later and we'll discuss more specifics on this.
- Regarding Operating Expenses for the quarter -- the teams did an excellent job of managing our costs. Operating expenses totaled \$106 million, or 22.1% of sales, compared to \$114 million, or 23.1% of sales last year. This represents a year-over-year decrease of about \$8 million or 100 basis points. A majority of the improvement is from the restructure actions we took last November. In addition, we also recorded lower incentive compensation costs.
- Sequentially, operating expenses decreased \$9 million from the \$115 million recorded in Q4. This decrease was partially due to lower variable expenses associated with the volume decrease. In addition, our Q4 results reflected higher spending in connection with the 2008 NeoCon trade fair.
- The good news is that even with the lower volumes and resulting loss of leverage and significantly higher commodity costs, we were still able to increase our operating income as a percentage of sales by 90 basis points to 11.8% for the quarter. A great accomplishment.
- The effective tax rate for the quarter was 35.0%, down slightly from the prior quarter rate of 35.1% but up from the previous year's first quarter rate of 33.5%. The expiration of the U.S. R&D tax credit contributed to the higher year-over-year tax rate.
- Consolidated net income for the quarter was \$33.4 million, which is 7% of sales...and just about the same amount of net income we generated last year on 3% lower volume.

- Earnings Per Share for the quarter totaled 60 cents, an 11% improvement over the 54 cents per share reported at this time last year. The work we did back in January to change the capital structure helped us to drive an improvement in EPS on basically flat earnings due to a 10% reduction in our average share count.

I'll now turn the call over to Joe to give us an update on our balance sheet.

Thanks, Curt

- Regarding the current quarter balance sheet metrics, the company's cash position at the end of the quarter was \$148 million – of this approximately \$54 million is located internationally.
- Cash flow from operations for the quarter totaled \$3.9 million compared to \$31.8 million for the same period last year. The current quarter's operating cash flow reflects a working capital use of funds of \$45.2 million due primarily to reductions in accruals for the payment of prior year incentives --- which by the way totaled over \$38 million. As you have seen in prior years, it's not uncommon for us to have low cash flow from operations in the first quarter due to the timing of the payment of our incentives. Last year Q1 was a little different in that we had some offsetting increases in our tax accruals including an adjustment related to the adoption of FIN 48 --- accounting for uncertainty in income taxes.
- Capital expenditures of \$8.2 million for the quarter are in line with the \$8.9 million spending during the prior year.
- And, as a quick update on the \$200 million accelerated share repurchase agreement we entered in January. It has officially been completed as of September 4. In total we repurchased approximately 7.5 million shares at an average price of \$26.61. We received 5.4 million shares of stock in the prior year and on September 9 we received the remaining 2.1 million shares, which will be reflected in our Q2 share count. In total, the ASR reduced our shares outstanding by 12%. Outside of the ASR, there were no additional share repurchases this quarter. We still have \$171 million of share repurchase authorization remaining from the Board.
- We are also in a strong liquidity position having just renewed our revolver last winter. We currently have approximately \$237 million in unused capacity on that revolver.
- We are in compliance with all of our debt covenants and are currently running with a leverage ratio of approximately 1.3 times EBITDA --- which is toward the low end of our targeted range of 1-2 times debt to EBITDA, but given the current market conditions, is appropriate relative to our strategy.

That's it for now on the balance sheet for this quarter.....I will hand it back to Curt

Thanks, Joe

Now let's look at the outlook:

- We're starting with a solid backlog of \$332 million which is 19% higher than last year. Although keep in mind the pull-ahead effect of the price increase did help to drive some of that increase. A portion of that backlog will not ship in Q2 based on the customer requirements. On the positive side, we do expect to see our traditional increase in Government year-end sales this quarter, and our International business has several large projects that are shipping this quarter, plus the new distribution agreements in Asia and in our U.S. Retail business are expected to drive improvements there. All of this brings us to expect second quarter revenue to be in a range of \$490 to \$515 million – essentially flat with the prior year.
- As I mentioned earlier, Gross Margins in our next quarter are expected to face continued headwinds from higher commodity prices. And while we expect to realize some benefit from our ongoing product cost improvement initiatives in place, and we will start to see benefit of the price increase, these efforts are not likely to offset all of the anticipated upward commodity pricing pressure. As a result, our gross margins are likely to decline in the short term from where they have been the past couple of quarters and be more in the range of 33.0% to 33.5%.
- However, operating expenses are expected to be lower than the 2nd quarter last year as a result of the cost structure changes we implemented.
- The effective tax rate for the 2nd quarter is expected to be higher than the prior year but similar to the current quarter as a result of the expiration of the Research tax credit and as a result will be in the range of 34.5% to 35.5%.
- Putting all that together --- In terms of earnings guidance, with relatively flat revenues, higher anticipated commodity costs and lower operating expenses and higher taxes, we expect earnings per share to be in a range of 59 to 66 cents for the 2nd quarter.

Let me now turn the call back to the operator and we'll take your questions.

## **Brian - Closing**

Thank you all for joining us today, and for your continued interest in Herman Miller. I also want to express again my appreciation to all Herman Miller employees for their outstanding work and commitment to our shared success.

The events of this week clearly highlight the challenges we face in the short-term. We are committed and confident that we have the right long-term vision for Herman Miller, the talented people and network of business partners to make it a reality, and the financial resources to keep moving forward.

And, one other thing I want to mention – Herman Miller Inc. will be celebrating their 25<sup>th</sup> anniversary of our association with NASDAQ and the launch of our new Embody chair when we open the market at the NASDAQ site on November 6 at 9:30 a.m. Watch for more details and your formal invitation.

That's all for now – we'll look forward to talking to you again in the next quarter