

**Herman Miller, Inc.**  
**Fourth Quarter Fiscal 2007**  
**Conference Call**  
**June 28, 2007**

The following document is a replication of the notes used in Herman Miller, Inc.'s Fourth Quarter Fiscal 2007 Conference Call presentation. Beth Nickels, CFO; Brian Walker, President and CEO; 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 Beth and Joe for a more detailed review of our results. We'll keep our prepared comments brief so that we have time for any questions you may have. I would like to acknowledge that Curt Pullen, Beth's successor to the CFO role, is here with us today. Some of you had a chance to meet Curt at NeoCon and he will be getting out to meet many of you over the next six months.

We are pleased with the results for fiscal 2007 and the fourth quarter. We had a strong year of financial performance and set the stage for further strategic growth. The new systems products we introduced at the beginning of this year have exceeded our expectations. As we noted in the press release, we have some work to do on their profitability, and that will be a key focus in 2008. Our International business had a terrific year in 2007. Our investments in distribution, new products and local operations have enabled us to capitalize on strong demand in these markets.

As we head into fiscal 2008, we are optimistic about next year and confident in our long-term strategic plan. While the macro economic picture is mixed, we believe the North American office furniture market will continue to grow, albeit, at a moderate rate. We continue to believe International growth will be stronger than the domestic market. We also expect solid growth in our Healthcare business in 2008. All together we expect to see top line growth in the mid single

digits for fiscal 2008. This should enable us to continue to drive reasonable leverage to the bottom line, good cash flow, and improving EVA. Of course, this is based on what we have visibility to today. If conditions change, we have the agility to respond.

Many of you have asked does this moderating growth rate represent a turning point for industry demand? As I said in the press release, while we believe domestic growth is moderating, the overall dynamic still appears to be positive. Project activity and customer visits remain solid, and, we're coming off a great NeoCon – industry observers suggest there was a record attendance for the show overall and we saw more than our share in our showroom. We enjoyed a strong response to our new product and market introductions – including Convia, our Be Collection of personal accessories, our Healthcare display and several new introductions in that space, and our display of recent international product introductions. We received four major product awards, including two Gold awards for key alliance partner designs, and were recognized by the industry's dealer association for best products and best technology support.

These new designs, vertical market displays, and the awards, speak to our progress in diversifying our business. As you know, our intent is to have at least 50% of our growth come from new and emerging markets by 2010.

And we've seen clear progress toward that goal. Convia has launched and is receiving great response in their marketplace; we've launched an important new accessories business, and our International group has continued to outperform expectations. Over the next 12 to 18 months, we expect to launch several new products in the office furniture segment, and we have some important developments in the que for international and healthcare.

In summary, we had a very good fiscal 2007. We have delivered on the goals we established three years ago. We are optimistic about 2008, but realistic about the domestic growth expectations. And, we believe the investments we are and will make to grow share and differentiation in the core business, combined with a portfolio of investment to expand our market opportunity will enable us to achieve our long-term strategic goals. We are committed to delivering great performance for our customers, shareholders and employees in both the short and long-term.

With that, I'll turn the call over to Beth and Joe for additional discussion of our fourth quarter results.

#### **4Q FINANCIAL REVIEW – BETH NICKELS (CFO)**

Thanks, Brian.

We had another solid quarter with over a 9% increase in sales, an 8% increase in orders, a 21% increase in Backlog, and a 32% increase in Earnings Per Share. It was a good ending to a year that represents our third year in a row of double digit

annual growth in Sales and Orders, as well as a record setting year for Earnings Per Share – our highest year ever at \$1.98 per share!

### Let's get right into the specifics of Sales and Orders

- Sales of \$485 million represented our 14<sup>th</sup> quarter in a row of year-over-year revenue growth. And orders of \$477 million represent the 15<sup>th</sup> quarter in a row of year-over-year order growth.
- On a sequential basis, fourth quarter sales were consistent with the third quarter and orders increased 4%.
- Orders in the first half of the quarter were a little slower than anticipated, averaging approximately \$35 million per week. We believe this was due to the February price increase that pulled orders forward into our 3<sup>rd</sup> quarter. In the second half of the quarter, order rates picked up nicely, and the weekly average was closer to \$39 million. The timing of the orders in the quarter made it a little challenging to hit our revenue estimates. We did get there, but at the low end of the range we established. As I will talk about shortly, the good news is that we have a solid backlog as we head into Q1.
- North American sales of \$389 million increased 7.5% year-over-year but were down slightly (1.5%) from the 3<sup>rd</sup> quarter. Our vertical markets of Healing and Home both posted continued year-over-year revenue growth.
- Non-North American sales were up over 19% year-over-year, aided partially by a weakening U.S. dollar which favorably impacted sales for the quarter by \$3.4 million. European sales were great with broad over-performance across most of the regions. We've experienced particularly strong growth in Italy where last week we just opened a new showroom in downtown Milan. Moreover, we were recently recognized in the UK with the prestigious Queens award for Enterprise in International trade.
- Asia and South America also had exceptional quarters.

### Now let me shift gears and talk about our Backlog

- Ending consolidated backlog remained robust at \$288 million. Backlog grew almost 21% from the prior year fourth quarter. In fact, ending backlog is the highest it's ever been in company history heading into the 1<sup>st</sup> quarter, which bodes well for Q1 shipments. It's consistently strong in both North American and non-North American regions – a well balanced backlog.
- Sequentially, the backlog balance is down 3.1% from last quarter's \$297 million. However, remember last quarter we had a significant amount of government business in the backlog that was shipped but waiting to be recognized. A good portion of that did get recognized in the quarter, which

helped to reduce our backlog. But we also had considerable new government business during the quarter. As a result, our fourth quarter ending backlog also has approximately \$6.4 million more than the prior year Q4 due to government related shipments that haven't yet been recognized. Most of these new orders will be recognized during Q1.

#### Now let's talk about gross margin

- Gross margin at 33.6% of sales decreased 40 basis points from the prior year 4Q level of 34.0%. The decline was due to the unfavorable start-up costs associated with the new systems products we introduced during the year. The demand for our new products has been outstanding, but that better-than-anticipated demand presents its own challenges as we manage the higher volumes at the same time we are establishing the new manufacturing processes. Importantly, quality and lead times didn't suffer. The good news is product margins increased throughout the quarter and we have a plan for continued improvements. Overall we're delighted to have to deal with this problem! The lower new product margins were partially offset by a strong benefit in the quarter from the price increase just implemented in February, and from the leverage gained on the incremental volume.
- On a sequential basis Gross margin improved 60 basis points from the 33% recorded in 3Q. The benefits of the price increase, along with improvements in commodity prices, more than offset the manufacturing start-up costs of our new systems products.
- Raw material commodity prices overall had only a small unfavorable impact on gross margin this quarter compared to the prior year, and improved sequentially from the previous quarter. The biggest improvements were in steel and aluminum. We expect slight year-over-year benefit from steel prices in Q1, as they have continued to decline. Aluminum costs are now relatively stable and should have only a small unfavorable impact in Q1.
- Our transportation and distribution costs this quarter declined as a percent of sales from the prior year 4Q. Fuel costs were comparable, and our shipping patterns were consistent. The primary reason for the decline in the current quarter was due to the team's focus on improving the utilization on outbound truckloads. We implemented a system change that allowed us to consolidate a much larger proportion of shipments. On another note our Distribution Team was just recognized by the Michigan department of Labor and Economic Growth with the Star Award, the state's highest workplace safety and health award – a significant honor!

### Let's move on to operating expenses

- For the quarter, operating expenses were approximately \$119 million or 24.4% of sales, compared to \$114 million, or 25.6% of sales last year. Most of the increased spending in the current year was the result of variable selling costs driven by the higher sales levels, and incremental employee compensation and benefit costs. We also were impacted year-over-year by (S) FAS 123R, the stock-based compensation accounting standard.
- When you roll this all up, operating income rose to 9.2% of sales, up from the 8.4% recorded in the 4Q of last year, but down sequentially from the 10.1% recorded in the 3Q of this year. We said last quarter we weren't yet ready to increase our minimum operating income target. We knew we would face some challenges associated with the manufacturing start up of our new products. And we did. We do plan to continue to make strides towards our goal of consistently providing at least 11% operating income, and you should see some gains in Q1. We're also pleased that our international operating margins continue at the same level as our North American business.

### Moving on to taxes:

- I'm sure you noticed a lot going on within our tax line this quarter. Our effective tax rate for the quarter was only 24.4%, significantly lower than our previously forecasted rate of 32%. The decrease from our forecast was predominately due to increased foreign tax credit utilization. The recently filed 2006 U.S. tax return had \$1.4M higher than anticipated foreign tax credit, as a result of our improved foreign source income and some additional tax planning work. Based on those 2006 results and our anticipated future foreign source income, we determined that our existing foreign tax credit carry-forward no longer required a \$2M valuation allowance. This was the biggest factor driving our improvement from the forecast. In total, the lower tax rate impacted EPS by approximately 3 cents for the quarter after adjusting for the incentive impact.
- On a full year basis, the effective tax rate was 31%, down significantly from the U.S. statutory rate of 35%. In addition to the increased foreign tax credits, we achieved considerable tax savings during the year from the new domestic manufacturing deduction, the research & experimental tax credit, and our increased foreign sales helped improve our export sales tax incentive. While much of these savings will continue into next year, we will not again experience the \$2M adjustment to the foreign tax credit valuation allowance. In addition, we anticipate higher state income taxes as more states move to a "sales" based apportionment. Going forward we expect our effective rate to moderate up, to between 32% - 34%
- Consolidated net earnings for the quarter were \$31.7 million or \$0.50 per share. As we mentioned in our press release, and as Joe will talk about next,

we continued with substantial share repurchases this quarter. Our reduced share count, as compared to last year, added two cents to our fourth quarter EPS.

Now I'll turn the call over to Joe Nowicki, Treasurer and VP of Investor Relations, to talk about our cash flow and the quality of the balance sheet

Thanks, Beth

- Cash flow from operations drove a source of funds of \$46.3 million this quarter, as compared to \$48.0 million in the prior year. The small year-over-year change was primarily due to an increase in working capital requirements. On a full year basis we generated over \$137 million in cash flow from operations – another really strong year of cash flow.
- Capital expenditures for the quarter were \$12.8 million, as compared to \$16.2 million in the prior year. For the full year our Cap Ex was only \$41.3 million as compared to \$50.8 million in the prior year. We continue to rationalize our capital spending across the business.
- We had some good news in the fourth quarter around our Facility in Canton, Georgia. As you may recall we have had it up for sale since we consolidated that facility into our Spring Lake, Michigan, Campus. We received an offer during the quarter and moved quickly through the closing process. We collected \$7.5 million in proceeds during the quarter. From an income statement perspective this was just about in line with the amount we had on the books so there was no significant gain or loss recorded.

Moving on to our Liquidity and Cash Position

- Early this quarter we received Board authorization for an additional \$100 million in share repurchases. We took advantage of the low stock price during the quarter to aggressively buy back stock. In total for the quarter we bought back almost 2.1 million shares at an average price of \$34.43 per share for a total cost of \$71.5 million. As of the end of the quarter, given the additional approved amount, we still have approximately \$139 million remaining on our board authorization. Given the current stock price combined with our available cash balance we plan to remain aggressive in the marketplace during the first quarter.
- As a result of the significant share repurchases we were able to work down our excess cash balance and ended the quarter with a cash balance of \$76.4 million, down from the \$103.5 million we had at the end of third quarter. Our intent is to continue to work down the excess cash balance to approximately \$40 million which represents our international cash balances.

- We continue to have adequate financial flexibility in our balance sheet. We made a \$3.0 million scheduled pay down of our private placement notes this quarter. As a result our debt levels are down to \$173.2 million and we have approximately \$136.9 million available capacity on our bank revolver.

Thanks, Joe

### Let's turn to the Outlook for the first quarter of FY08

- Given our high ending backlog we anticipate another strong quarter for sales. We expect 1Q sales to be in the range of \$480 million to \$505 million, representing an increase of 7% to 12% over the prior year. This assumes weekly order entry rates of approximately \$34 to \$38 million per week for the first half of the quarter, which reflects an anticipated summer and holiday slowdown. And keep in mind we have a difficult comp because last year's first quarter represented a 12.4% increase after adjusting for the extra week in 1QFY6.
- In terms of earnings guidance, we expect earnings per share between \$0.47 and \$0.53 cents, which represents an increase of 9% to 23% over the prior year. Higher production volumes will provide increased leverage that will benefit both gross margin and operating margins. While we plan to make progress on the efficiencies in the manufacture of our new products, we still anticipate an unfavorable impact on gross margins in the quarter. Overall we expect an improvement in our total operating income percentage. Our effective tax rate for the quarter will increase from the low level we saw in 4Q and be more in line with our historical average rate of 32% to 34%.

I'd now like to turn the call back to the operator to open it up for your questions.

### **Closing**

Thank you for joining us today. We're pleased with our overall results this past year, but we also know we're far from done. We've got a strategy in place that is already creating diversification and new revenue, with greater opportunity still in front of us. We'll continue to execute on our strategy while minding the core business and the economic landscape, and we hope you'll continue to share in our success.

Before signing off, I also want to acknowledge Beth Nickels, as one of Herman Miller's key leaders over these past years as we managed through the earlier downturn and in these past few years of renewed growth. As you know, Beth will be taking leadership of our Healthcare business beginning this quarter, a role she sought and a vital market in our strategy going forward. Beth, we're grateful for your contributions and I'm personally excited about the passion you are bringing to Healthcare. Thank you for all that you bring to my team. Maybe you'd like to offer a few remarks before we sign off?

Thanks, Brian. I have truly enjoyed my time as CFO at Herman Miller, including the relationships I've developed with many of you in the investment community. But, I'm eager to begin leading our Healthcare business. As many of you on the line know, I have a personal passion for this market and what Herman Miller offers to it today, and even more for what we'll be introducing in the future. And, I have no doubt Curt will bring new energy and positive changes to the Finance Department and the Executive Leadership Team. I expect a smooth transition of my current responsibilities to Curt. I know he is looking forward to leading the call with all of you in September. Again, thanks for your time and interest this morning.