

**Herman Miller, Inc.**  
**Fourth Quarter Fiscal 2008**  
**Conference Call**  
**June 26, 2008**

The following document is a replication of the notes used in Herman Miller, Inc.'s Fourth Quarter Fiscal 2008 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.

We have completed one of the best years in Herman Miller's history, both in terms of our financial achievements as well as in execution of our strategic priorities. I'm going to spend some time this morning reviewing those accomplishments and then share a sense of what we see ahead for us in the new fiscal year.

I'll start with financial results, the focus of this call:

- We finished the year with Sales up 5% over the prior year, crossing the \$2 billion mark for the first time since 2001.
- Leverage from the additional volume, combined with our continued implementation of the Herman Miller Production system, drove Gross Margin improvements of 100 basis points, to 34.7%.
- A heightened cost management focus helped Operating expense improve by 80 basis points, to 22.5% of sales.
- As a result, our operating income rose 200 basis points, to 12.3% of sales --- in November we committed to increase our operating margins and you can see consistent and significant progress in each of the past two quarters.

- We also put our balance sheet to work this year and took a little more leverage in order to facilitate repurchasing over \$266 million of our stock. This drove an over 8% reduction in our weighted average share count for the year.
- All of that combined to drive a **Record Earnings Per Share** of \$2.56 for the year – an increase of over 29%.
- And we also saw our cash flow from operations increase by 55%, to over \$213 million for the year. As a result we ended the year with a cash balance of over \$155 million!

Great results like these don't just happen – It took a lot of hard work from the over 6,000 employee owners of Herman Miller to get there. Our folks executed at a level of excellence that is truly remarkable. This type of performance also requires leadership. We are fortunate to have a committed and experienced group of leaders who are willing to make the tough calls and know how to inspire the people of Herman Miller to overcome any challenge.

While I am pleased with our financial performance, I am even more excited by the accomplishments we made toward our long-term strategic vision. We believe there is a great opportunity to grow and diversify our business – moving us from being primarily a U.S. office furniture manufacturer to becoming a global habitat company with a formula centered around performance innovation.

This past year that we made significant progress toward making that vision a reality. Here are just a few examples of our accomplishments:

- We introduced innovative new products in every segment of our business this year. In our retail business, we introduced a new collection of home office products that won “best of show” at ICFF. Our international business introduced a new table-based office system that is remarkable in its simplicity and ease of installation. Our Healthcare business introduced two new award winning chairs for patient rooms. This is a significant milestone, bringing Herman Miller design, innovation and ergonomics to what we believe is an under-served market segment. And, just two weeks ago we introduced a major revitalization of our storage offering in the core North American Office Furniture segment. In fact we just won four awards at Neocon, our industry trade show, for some of those new products, including the Best of Competition among all new industry products for our Teneo filing and storage solution. And we're not done – we have several new major products in the queue for release in the next couple of quarters!
- We also enhanced our Healthcare offering with the acquisition of Brandrud. With Brandrud's portfolio of soft seating, our Healthcare solutions will go further into patient rooms, patient treatment areas, and public spaces. We saw double digit sales growth in Healthcare this year and we expect that to continue into next year.

- We expanded our distribution channel internationally and ramped up our new manufacturing presence in China. For the year, we saw our international sales up almost 18%, now representing almost 24% of our total consolidated sales. That's a major shift from the 15% we were at just seven years ago in 2001. Which by the way, is also the last time we broke \$2 billion in sales – but back then it was much more about the U.S. market.
- And our work on Disruptive technologies like Convia earned us a spot in the Fast Company magazine “Fast 50” list of the World’s Most Innovative Companies and an appearance next week on CNBC’s “Business of Innovation” series. To be frank, Convia is still a very small business, but we believe this innovation in building infrastructure is foundational to the future of our business and well positioned for the challenges our customers and our country face. Convia can make a significant impact on the ability to monitor, control and reduce the consumption of energy. And, it will enable our customers to create environments that are more adaptable and pleasing to the user while reducing the cost of change. To use an automotive analogy, we believe Convia is the Prius of our solution portfolio.
- We also further strengthened our Distribution efforts in the North American market and were named “Manufacturer of the Year” by the independent Office Furniture Dealers Association.
- Finally, our people practices and efforts around social responsibility earned us a ranking in the Fortune “100 Best Companies to Work For” in America and recognition for having one of the five best diversity programs in the country.

I could continue with a list of our accomplishments—it’s something that I and all the employees of Herman Miller take a lot of pride in. But I’ll stop here and simply thank everyone, across the company, for the outstanding effort they put in this year. It’s clearly visible in what we have accomplished.

So where do we go from here? We are keenly aware that the macro economic environment we face, particularly in the U.S., is challenging. In particular the demand picture for office furniture in the U.S. is negative. And we face significant increases in input costs. We’ve already prepared ourselves for some of the challenges --- in the fall we made changes to our operating cost structure to get ourselves leaner and better structured for further gains in efficiencies. In the spring we announced a price increase that will become effective this summer. We’re continuing to innovate and bring new products to the market. And, we’re continuing to expand in new and emerging international markets.

Despite these timely and prudent actions, the macro factors will still have an impact on our financial performance in the coming year, and Curt will talk about that later in the call. But, we’re not changing our strategy. The vision is the same

-- to grow and diversify our business – moving us from being primarily a U.S. office furniture manufacturer to becoming a global habitat company with a formula centered around performance innovation. We have a very strong balance sheet, excellent cash flow and ample cash to continue to invest through the cycle. And, that is what we intend to do. We remain committed and focused on adding capabilities and building blocks that will enable us to grow and serve a broader set of customers.

We've managed through cycles in the past. As investors, you can be confident that we have and will continue to execute at a very high level. And, we will emerge from this cycle a stronger, more diverse company with a very bright future. Our leaders and employee-owners are committed to delivering on this promise and confident it is well within our ability to do so.

Now I will turn it over to Curt and Joe take you through the details of our Q4 financial results.....

## 4Q FINANCIAL REVIEW – CURT PULLEN (CFO)

Thank you, Brian. Good morning everyone.

There is a lot to talk about again this quarter. As you saw in the press release, we experienced strong quarterly revenue growth of 7%. Our continued emphasis on operational efficiencies and cost management drove a 130 basis point improvement in gross margin and a 350 basis point improvement in operating income as a percentage of sales compared to the 4<sup>th</sup> quarter of last year. These items combined...resulted in a 4<sup>th</sup> quarter record Earnings Per share of 71 cents – a 42% increase over the prior year!

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

- Fourth quarter sales of \$519 million represented our 18th quarter in a row of year-over-year revenue growth. The 7% growth led sales above the range of our guidance of \$475 million to \$500 million thanks mostly to really strong orders in the first half of the fourth quarter that we were able to ship within the quarter, combined with higher than anticipated demand from our international entities.
- North American sales experienced a solid increase of 6% over the prior year. Our healthcare business posted substantial gains both from organic growth as well as from the acquisition of Brandrud. In addition, our North American business saw continued strength in Canada and Mexico. I should mention that the prior year 4<sup>th</sup> quarter included \$5 million of revenue from previously discontinued OEM business that did not occur this quarter – so our real “same store” growth was even stronger.
- Non-North American sales increased 23% from the prior year 4<sup>th</sup> quarter – with gains across the board in all regions – Europe, Asia, and South America. We were particularly strong in the Middle East, Australia, and Japan.
- Once again our international sales benefited from foreign exchange this quarter by approximately \$8 million due to the weakened U.S. dollar. About half of that was in the Non-North American business unit (Europe primarily) and the other half was in Canada. The weaker dollar also increased the operating income of our international businesses by approximately \$1 million for the quarter, when compared to last year.

- Looking at orders... In total, orders in Q4 were \$498 million compared to \$477 million last year – an increase of over 4%. We experienced significantly stronger orders in our retail, healthcare, and Non-North American business as compared to the prior year 4<sup>th</sup> quarter.
- On a sequential basis, 4th quarter order rates were up almost 10% from our 3<sup>rd</sup> quarter total of \$454 million...partially a result of the traditional turn around from the 3<sup>rd</sup> quarter holiday season.

Looking more closely at the order information...

- Orders in North America increased about 3% versus the prior year. Our core U.S. office furniture orders were down slightly reflecting the broad economic trends in the U.S. However this was more than offset by strong order improvements in Healthcare as well as Canada and Mexico.
- Orders for the Non-North American component of our business increased over 16% for the quarter...with the strongest gains coming from Asia, the Middle East, and South America.
- Similar to the foreign exchange impact on sales, we also experienced a benefit to our international orders this quarter of approximately \$7 million due to the impact of the weakened U.S. dollar.

Gross Margin is next...

- We're once again very pleased with our gross margin performance for the quarter, which ended at 34.9% of sales and represents an improvement of 130 basis points over the prior year of 33.6%. This strong performance was primarily the result of a mix shift during the quarter to more profitable business units, along with continued efforts around cost improvement and increased leveraging of overhead resulting from the higher sales. We have also continued to realize margin improvements on products that have been recently introduced.
- Additionally, we had approximately \$3 million of one-time benefits in margin from reduced inventory levels that generated a favorable LIFO adjustment as well as the realization of service revenue associated a large project completion.
- On a sequential basis, gross margin improved from the 34.3% recorded in the 3<sup>rd</sup> quarter due to the overhead leverage of the additional volume combined with the one time benefits that I just mentioned.
- Now let's spend some time on the hot topic of the quarter – input costs. As expected, we did experience an increase in input costs for the quarter – primarily in steel and fuel, which drove about a \$3 million year-over-year hit to

our financials. Although unexpectedly, it really didn't start to show-up until the month of May – so we only saw one month of the increase this quarter. This is likely to worsen in Q1 as we're going to see a full quarter's impact which is what's baked into our forecast. As you know we have implemented a price increase which is designed to offset some of this, but we will not see the benefit of that price increase until our 2<sup>nd</sup> or 3<sup>rd</sup> quarter. I will get into this a little more when we discuss the forecast.

- Operating Expenses for the quarter were extremely well managed and totaled \$115 million, or 22.2% of sales, compared to \$119 million, or 24.4% of sales last year. This represents a year-over-year decrease of about \$4 million, even though sales are 7% higher – driving a reduction as a percentage of sales of 220 basis points. The decrease in spending was driven both by our cost reduction actions announced during the 2nd quarter as well as all of our teams having done an outstanding job in controlling expenses for the quarter, yet, at the same time...getting all of our important work done,
- Sequentially, operating expenses increased \$7 million from the \$108 million recorded in Q3. As expected, we did see a ramp up of spending in connection with the 2008 NeoCon trade fair as well as variable costs associated with the higher sales volume. We are extremely pleased with the return on our investment in NeoCon including a Gold and three Silver awards to go along with our new product, “Teneo” having taken the “Best of Competition” award, as Brian mentioned.
- Gains in gross margin and reduced operating expenses drove operating income as a percentage of sales up to 12.7% for the quarter, which is a 48% increase over the prior year – and one of our highest operating income results ever recorded...and certainly consistent with our goal of 13%.
- Our effective tax rate for the quarter was 35.1%... which brought us in line with our full year anticipated tax rate of 33.9%. You'll perhaps remember that at this time last year, our 4<sup>th</sup> quarter effective tax rate was 24.4%. The decreased tax rate last year was the result of favorable circumstances related to foreign tax credits and various tax reserves. That benefit during last year's 4<sup>th</sup> quarter positively boosted our EPS for that quarter by 3 cents, which makes our current year growth in EPS even more impressive.
- Consolidated net income for the quarter was \$39.5 million, approaching 8% of sales...and is a 25% increase over the prior year.
- Earnings Per Share for the quarter totaled 71 cents, a record quarterly EPS and a 42% improvement over the 50 cents per share reported at this time last year. Our strong operating results combined with a 12% reduction in the average share count produced these record numbers.

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, higher net income and lower working capital requirements drove cash flow from operations up to a very strong \$90 million in Q4, compared to \$46 million in the prior year – a 95% improvement. A great quarter for cash flow! And by the way, for the full year our cash flow from operations was an even more impressive \$214 million.
- Lower working capital requirements drove a source of funds of \$41 million in the current quarter, as compared to a \$7 million source during the prior year. Lower accounts receivable balances due to the timing of sales and outstanding work by our collection teams, combined with lower inventory levels and increased payables and accruals drove the majority of the change in working capital year to year.
- Capital expenditures of \$12 million for the quarter are slightly lower than the \$13 million spending during the prior year, well within our planned levels. Full year capital expense was only \$40 million – we did a great job of managing our capital requirements to slightly less than the prior year's \$41 million.
- As you know, earlier in the year we entered into a \$200 million accelerated share repurchase agreement with Morgan Stanley. A portion of that agreement was completed during the quarter and as a result, they delivered 438,000 shares of stock to HMI to close-out that part. When the remainder is completed at the beginning of September we should get back approximately 2 million additional shares. Outside of the ASR, there were no additional share repurchases this quarter. We still have \$171 million of share repurchase authorization.
- We ended the quarter with a cash balance of \$155 million. Of this amount approximately \$56 million is currently located in our international entities.
- We are also in a strong liquidity position having just renewed our revolver this past 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 right about in the middle of our targeted 1-2 times of debt to EBITDA.
- As you heard Brian say earlier we intend to use our cash balances and financial liquidity to continue to invest and grow our business!

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 backlog of \$286 million which is about flat with last year. Our order levels were pretty consistent over the last half of Q4, although we remain cautious about the current overall economic environment – particularly in the U.S. In addition, effective with the beginning of our new fiscal year, we sold one of our owned dealerships as part of a planned divestiture. This transition will negatively impact our year-over-year revenue comparisons by approximately \$8 million for the quarter. When you put all that together, we are expecting 1<sup>st</sup> quarter sales to be in a range of \$470 million to \$495 million. Which when you adjust for the dealership transition represents basically a flat forecast to the prior year.
- As I mentioned earlier Gross Margins in our next quarter are expected to face headwinds from higher commodity prices. And while we expect to realize continued benefit from ongoing product cost improvement initiatives in place, these efforts are not likely to offset all of the likely upward commodity pricing pressure. We also implemented a price increase, but as I've previously mentioned, we won't really see the impact of that until Q2 or Q3. We also won't have the benefit of the one time favorable adjustments that we saw in the current quarter. 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 32.5% to 33.5%.
- However, operating expenses are expected to be significantly lower than the 1<sup>st</sup> quarter of FY08 as a result of the cost structure changes we implemented last year and also the sale of the dealership mentioned above. Plus, as you know, we have a variable cost structure – especially when it comes to incentive compensation – and with lower earnings we'll see lower bonus costs.
- The effective tax rate for the 1st quarter is expected to be higher as a result of the expiration of the Research tax credit and as a result will be in the range of 34% to 36%.
- 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 \$0.49 to \$0.56 cents for the 1st 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. In closing, I want to thank you once again 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.

As we look forward, we understand 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 people to make it a reality and the financial resources to keep moving forward even in challenging times.

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