

Herman Miller Reports Second Quarter Fiscal 2020 Results

Highlights

- Net sales growth of 3% over prior year
- Operating margin expansion of 120 basis points on a reported basis (100 basis points adjusted)
- Announced further strategic investments in HAY and naughtone

NOTE: A data supplement with additional financial information relating to the periods covered by this press release is available for download from the Company's website.

Herman Miller, Inc. (NASDAQ: MLHR) today announced results for its second quarter ended November 30, 2019. Net sales in the quarter totaled \$674.2 million, an increase of 3.3% from the same quarter last fiscal year. New orders in the second quarter of \$674.9 million were 4.2% below the prior year level.

Herman Miller reported net earnings of \$1.32 per share on a diluted basis in the second quarter compared to diluted earnings per share of \$0.66 in the same quarter last fiscal year. Other income in the current quarter reflected a pre-tax gain of \$30.5 million related to the purchase accounting treatment of the initial equity-method investment in U.K.-based naughtone. The Company acquired the remaining shares of naughtone during the second quarter, and as a result was required to mark the value of the initial investment to fair value, resulting in a non-taxable gain. Excluding restructuring expenses, other special charges, and the naughtone investment gain, adjusted earnings per share in the second quarter totaled \$0.88 compared to adjusted earnings per share of \$0.75 in the second quarter of last fiscal year.

Andi Owen, President and Chief Executive Officer, stated, "In the face of an uncertain global economic and geopolitical environment, we delivered adjusted earnings per share at the upper end of the guidance range that we established at the start of the quarter. Second quarter sales were impacted by lower than anticipated order levels, which reflected the uneven demand patterns we're seeing across the broader industry and the natural variability in a project-driven business. Order rate declines during the quarter were amplified by a particularly challenging growth comparison in our prior year second quarter, which reflected consolidated organic order growth of 10%. While these factors also impact our organic sales growth guidance for the upcoming quarter, we are seeing positive signs as we look further ahead, both in our own project activity levels and in broader demand indicators such as job growth, unemployment levels, and consumer spending. Going forward, we are also excited about our additional investments in HAY and naughtone that give us majority ownership of these fast-growing design brands. With our collection of leading brands, a global multi-channel distribution capability and a clear set of strategic priorities, we remain well-positioned to drive sustainable long-term growth."

Consolidated gross margin in the second quarter of fiscal 2020 totaled 37.9%, representing a 180 basis point increase from the level reported in the same quarter of last fiscal year. Gross margin reflected 15 basis points of improvement this quarter due to a favorable exclusion by the Office of the United States Trade Representative, which resulted in a refund of tariffs paid over the past 12 months.

Operating expenses in the second quarter were \$188.9 million compared to \$182.2 million in the same quarter a year ago. Operating expenses included certain special charges totaling \$1.2 million in the second quarter of fiscal 2020 and \$5.7 million in the same quarter last year. These items in the current quarter related primarily to transaction costs associated with the HAY and naughtone investments. Excluding these items, operating expenses increased by \$11.2 million compared to the same quarter last year.

The Company recognized pre-tax restructuring expense totaling \$4.2 million in the second quarter. These items related primarily to restructuring actions associated with profit improvement initiatives, including plans initiated in the quarter to optimize our Nemschoff manufacturing operations and targeted workforce reductions.

Herman Miller's effective income tax rate in the second quarter was 14.3%, compared to 22.6% in the same quarter last fiscal year. Excluding the impact of the non-taxable gain this quarter related to naughtone, the adjusted effective income tax rate in the period was 21.6%.

Jeff Stutz, Chief Financial Officer, noted, "Despite the uneven demand environment this quarter, we leveraged gross margin expansion and well-managed operating expenses to deliver 100 basis points of adjusted operating margin improvement. Gross margin expansion was primarily driven by net price realization, favorable steel

costs, and continued savings from our profit improvement initiatives. We're also pleased with the commitment of our Herman Miller team members to continually balance the investments required for future growth with prudent control over spending. These factors combined to drive a 17% year-over-year increase in adjusted earnings per share and robust operating cash flow generation. While ongoing global uncertainty remains an outlook risk, we were encouraged to see improved order levels in the last month of the quarter and, to date, through the early part of the third quarter."

The Company ended the second quarter with total cash and cash equivalents of \$177.0 million. Cash flow generated from operations was \$89.6 million in the current quarter compared to \$58.6 million in the same quarter last fiscal year.

Third Quarter Fiscal 2020 Guidance

Looking forward, Herman Miller expects net sales in the third quarter of fiscal 2020 to be in the range of \$672 million to \$692 million. On an organic basis, adjusted for foreign currency translation and the impact of consolidating HAY and naughtone, this forecast implies sales growth of 3% compared to the third quarter of last year at the mid-point of the range. The Company expects diluted earnings per share to range between \$0.68 to \$0.72.

Supplemental Information and Webcast

The Company has created a supplemental data report which provides additional information relevant to its quarterly results. This document can be accessed via a link on the Investors section of the Company's website at <http://www.hermanmiller.com/investors>.

The Company will host a webcast to discuss the results of the second quarter of fiscal 2020 on Thursday, December 19, 2019, at 9:30 AM ET. To ensure your access to the webcast, you should allow extra time to visit the Company's website at <http://investors.hermanmiller.com/events-and-presentations> to download the streaming software necessary to participate. An online archive of the presentation will be available on the website later that day.

About Herman Miller

Herman Miller is a globally recognized provider of furnishings and related technologies and services. Since its inception in 1905, the Company has relied on innovative design to help people do great things. The global design leader has evolved into Herman Miller Group, a family of brands that collectively offers a variety of products for environments where people live, learn, work, and heal. The family of brands includes Colebrook Bosson Saunders, Design Within Reach, Geiger, HAY, Maars Living Walls, Maharam, naughtone, Nemschoff, and Herman Miller. For more information visit www.hermanmiller.com/about-us.

This release 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, 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.

Related Links

[Read the full report](#)

[Financial Data Supplement](#)

 [Herman Miller, Inc. Earnings Release - Q2 FY2020](#)

(493 KB)

 [supplemental_financial_information_q2_fy2020](#)

(188 KB)

<http://stage.mediaroom.com/hermanmillergroup/2019-12-18-Herman-Miller-Reports-Second-Quarter-Fiscal-2020-Results>