MILLER HERMAN INC
Form 10-Q
April 10, 2019

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 2, 2019 Commission File No. 001-15141

HERMAN MILLER, INC.

A Michigan Corporation ID No. 38-0837640

855 East Main Avenue, Zeeland, MI 49464-0302 Phone (616) 654 3000

Indicate by check mark whether the registrant:
(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [_]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No [_]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]	Accelerated filer [_]	Non-accelerated filer [_]	Smaller reporting company [_]	Emerging growth company [_]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act [__]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [_] No [X]

Common Stock Outstanding at April 8, 2019 - 58,812,564 shares

Herman Miller, Inc. Form 10-Q
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Herman Miller, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Dollars in millions, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 2, 2019	March 3, 2018	March 2, 2019	March 3, 2018
Net sales	$619.0	$578.4	$1,896.2	$1,763.2
Cost of sales	398.0	372.6	1,214.5	1,118.5
Gross margin	221.0	205.8	681.7	644.7
Operating expenses:				
Selling, general and administrative	153.7	149.0	476.5	449.6
Restructuring and impairment expenses	0.3	—	1.7	1.9
Design and research	19.2	18.1	56.6	54.6
Total operating expenses	173.2	167.1	534.8	506.1
Operating earnings	47.8	38.7	146.9	138.6
Other expenses:				
Interest expense	3.0	3.2	9.1	10.6
Other, net	(0.8)	(0.7)	(1.3)	(1.7)
Earnings before income taxes and equity income	45.6	36.2	139.1	129.7
Income tax expense	7.3	6.9	27.3	35.4
Equity income from nonconsolidated affiliates, net of tax	1.0	0.7	2.8	2.2
Net earnings	39.3	30.0	114.6	96.5
Net earnings attributable to noncontrolling interests	0.1	0.2	0.1	0.2
Net earnings attributable to Herman Miller, Inc.	**$39.2**	**$29.8**	**$114.5**	**$96.3**
Earnings per share — basic	$0.67	$0.50	$1.94	$1.61
Earnings per share — diluted	$0.66	$0.49	$1.92	$1.60
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	$8.0	$1.7	$(4.4)	$6.3
Pension and other post-retirement plans	0.6	0.9	1.7	2.6
Interest rate swaps	(4.4)	5.9	(3.9)	6.9
Unrealized holding loss	0.1	—	—	—
Other comprehensive income (loss)	4.3	8.5	(6.6)	15.8
Comprehensive income	43.6	38.5	108.0	112.3
Comprehensive income attributable to noncontrolling interests	0.1	0.2	0.1	0.2
Comprehensive income attributable to Herman Miller, Inc.	**$43.5**	**$38.3**	**$107.9**	**$112.1**

See accompanying notes to condensed consolidated financial statements.

Herman Miller, Inc.
Condensed Consolidated Balance Sheets
(Dollars in millions, except per share data)
(Unaudited)

	March 2, 2019	June 2, 2018
ASSETS		
Current Assets:		
Cash and cash equivalents	$113.5	$203.9
Short-term investments	8.9	8.6
Accounts and notes receivable, net	221.0	217.4
Unbilled accounts receivable	25.5	1.9
Inventories, net	191.9	162.4
Prepaid expenses and other	58.2	51.2
Total current assets	**619.0**	**645.4**
Property and equipment, at cost	1,068.1	1,020.8
Less — accumulated depreciation	(729.3)	(689.4)
Net property and equipment	**338.8**	**331.4**
Goodwill	304.0	304.1
Indefinite-lived intangibles	78.1	78.1
Other amortizable intangibles, net	42.6	41.3
Other noncurrent assets	146.7	79.2
Total Assets	**$1,529.2**	**$1,479.5**
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS & STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$175.7	$171.4
Accrued compensation and benefits	73.9	86.3
Accrued warranty	52.5	51.5
Customer deposits	36.4	27.6
Other accrued liabilities	80.4	77.0
Total current liabilities	**418.9**	**413.8**
Long-term debt	281.9	275.0
Pension and post-retirement benefits	13.6	15.6
Other liabilities	79.2	79.8
Total Liabilities	**793.6**	**784.2**
Redeemable noncontrolling interests	20.7	30.5
Stockholders' Equity:		
Preferred stock, no par value (10,000,000 shares authorized, none issued)	—	—
Common stock, $0.20 par value (240,000,000 shares authorized, 58,823,817 and 59,230,974 shares issued and outstanding in 2019 and 2018, respectively)	11.8	11.7
Additional paid-in capital	92.0	116.6
Retained earnings	678.3	598.3
Accumulated other comprehensive loss	(66.5)	(61.3)
Key executive deferred compensation plans	(0.8)	(0.7)
Herman Miller, Inc. Stockholders' Equity	**714.8**	**664.6**
Noncontrolling Interests	0.1	0.2
Total Stockholders' Equity	**714.9**	**664.8**

Total Liabilities, Redeemable Noncontrolling Interests, and Stockholders' Equity	**$1,529.2**	**$1,479.5**

See accompanying notes to condensed consolidated financial statements.

Herman Miller, Inc.
Condensed Consolidated Statements of Cash Flows
(Dollars in millions)
(Unaudited)

	Nine Months Ended	
	March 2, 2019	March 3, 2018
Cash Flows from Operating Activities:		
Net earnings	$114.6	$96.5
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	55.3	49.4
Stock-based compensation	7.2	4.8
Pension and post-retirement expenses	0.8	1.1
Pension contributions	—	(12.0)
Earnings from nonconsolidated affiliates net of dividends received	(0.8)	(0.5)
Deferred taxes	—	(10.3)
Gain on sales of property and dealers	—	(0.8)
Restructuring and impairment expenses	1.7	1.9
Increase in current assets	(55.3)	(18.1)
Increase (decrease) in current liabilities	7.5	(12.2)
Increase in non-current liabilities	0.4	11.4
Other, net	(0.8)	(0.5)
Net Cash Provided by Operating Activities	**130.6**	**110.7**
Cash Flows from Investing Activities:		
Proceeds from sale of property and dealers	—	2.0
Marketable securities purchases	(1.6)	(0.7)
Marketable securities sales	1.3	0.8
Equity investment in non-controlled entities	(71.6)	—
Capital expenditures	(63.0)	(51.0)
Proceeds from life insurance policy	—	8.1
Purchase of HAY licensing agreement	(4.8)	—
Net advances on notes receivable	(1.0)	(1.1)
Other, net	(1.7)	(0.6)
Net Cash Used in Investing Activities	**(142.4)**	**(42.5)**
Cash Flows from Financing Activities:		
Dividends paid	(34.0)	(31.7)
Proceeds from issuance of long-term debt	—	340.4
Payments of long-term debt	—	(265.4)
Common stock issued	11.1	15.8
Common stock repurchased and retired	(43.4)	(30.1)
Purchase of redeemable noncontrolling interests	(10.1)	(1.0)
Net payments from supplier financing program	(0.3)	—
Other, net	0.1	0.3
Net Cash (Used in) Provided by Financing Activities	**(76.6)**	**28.3**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(2.0)	0.3

Net Decrease in Cash and Cash Equivalents	(90.4)	96.8
Cash and Cash Equivalents, Beginning of Period	203.9	96.2
Cash and Cash Equivalents, End of Period	**$113.5**	**$193.0**

See accompanying notes to condensed consolidated financial statements.

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Herman Miller, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(Dollars in millions, except share data)
(Unaudited)

	Nine Months Ended March 2, 2019									
		Common Stock								
	Preferred Stock	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Key Executive Deferred Compensation	Herman Miller, Inc. Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
June 2, 2018	**$—**	**59,230,974**	**$ 11.7**	**$ 116.6**	**$ 598.3**	**$ (61.3)**	**$ (0.7)**	**$ 664.6**	**$ 0.2**	**$ 664.8**
Net earnings	—	—	—	—	35.8	—	—	35.8	—	35.8
Other comprehensive loss	—	—	—	—	—	(7.8)	—	(7.8)	—	(7.8)
Stock-based compensation expense	—	—	—	2.2	—	—	—	2.2	—	2.2
Exercise of stock options	—	265,739	0.2	7.9	—	—	—	8.1	—	8.1
Restricted and performance stock units released	—	335,266	0.1	—	—	—	—	0.1	—	0.1
Employee stock purchase plan issuances	—	16,805	—	0.5	—	—	—	0.5	—	0.5
Repurchase and retirement of common stock	—	(545,866)	(0.1)	(20.7)	—	—	—	(20.8)	—	(20.8)
Dividends declared ($0.1975 per share)	—	—	—	—	(11.6)	—	—	(11.6)	—	(11.6)
Cumulative effect of accounting changes	—	—	—	—	2.0	(0.1)	—	1.9	—	1.9
September 1, 2018	**$—**	**59,302,918**	**$ 11.9**	**$ 106.5**	**$ 624.5**	**$ (69.2)**	**$ (0.7)**	**$ 673.0**	**$ 0.2**	**$ 673.2**
Net earnings	—	—	—	—	39.3	—	—	39.3	—	39.3
Other comprehensive loss	—	—	—	—	—	(3.1)	—	(3.1)	—	(3.1)
Stock-based compensation expense	—	—	—	2.5	—	—	—	2.5	—	2.5
Exercise of stock options	—	53,614	—	1.3	—	—	—	1.3	—	1.3
Restricted and performance stock units released	—	7,511	—	—	—	—	—	—	—	—
Employee stock purchase plan issuances	—	14,813	—	0.5	—	—	—	0.5	—	0.5
Repurchase and retirement of common stock	—	(476,854)	(0.1)	(16.5)	—	—	—	(16.6)	—	(16.6)
Dividends declared ($0.1975 per share)	—	—	—	—	(11.7)	—	—	(11.7)	—	(11.7)
Cumulative effect of accounting changes	—	—	—	—	(1.5)	1.5	—	—	—	—
December 1, 2018	**$—**	**58,902,002**	**$ 11.8**	**$ 94.3**	**$ 650.6**	**$ (70.8)**	**$ (0.7)**	**$ 685.2**	**$ 0.2**	**$ 685.4**
Net earnings	—	—	—	—	39.2	—	—	39.2	0.1	39.3
Other comprehensive income	—	—	—	—	—	4.3	—	4.3	—	4.3
Stock-based compensation expense	—	—	—	2.8	—	—	—	2.8	(0.2)	2.6
Exercise of stock options	—	3,197	—	—	—	—	—	—	—	—
Restricted and performance stock units released	—	75,917	—	0.1	—	—	—	0.1	—	0.1
Employee stock purchase plan issuances	—	16,253	—	0.5	—	—	—	0.5	—	0.5
Repurchase and retirement of common stock	—	(183,737)	—	(6.0)	—	—	—	(6.0)	—	(6.0)

Directors' fees	—	10,185	—	0.3	—	—	—	0.3	—	0.3
Deferred compensation plan	—	—	—	—	—	—	(0.1)	(0.1)	—	(0.1)
Dividends declared ($0.1975 per share)	—	—	—	—	(11.5)	—	—	(11.5)	—	(11.5)
March 2, 2019	**$ —**	**58,823,817**	**$ 11.8**	**$ 92.0**	**$ 678.3**	**$ (66.5)**	**$ (0.8)**	**$ 714.8**	**$ 0.1**	**$ 714.9**

For certain items, the sum of the quarterly information above does not equal the year to date amounts reflected throughout this Form 10-Q due to rounding associated with the calculations on an individual quarter basis. These differences are not material to the Condensed Consolidated Financial Statements.

	Nine Months Ended March 3, 2018									
	Common Stock									
	Preferred Stock	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Key Executive Deferred Compensation	Herman Miller, Inc. Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
June 3, 2017	**$—**	**59,715,824**	**$ 11.9**	**$ 139.3**	**$ 519.5**	**$ (82.2)**	**$ (1.0)**	**$ 587.5**	**$ 0.2**	**$ 587.7**
Net earnings	—	—	—	—	33.0	—	—	33.0	—	33.0
Other comprehensive income	—	—	—	—	—	3.7	—	3.7	—	3.7
Stock-based compensation expense	—	—	—	1.7	—	—	—	1.7	—	1.7
Exercise of stock options	—	150,556	0.1	3.8	—	—	—	3.9	—	3.9
Restricted and performance stock units released	—	220,850	—	—	—	—	—	—	—	—
Employee stock purchase plan issuances	—	18,223	—	0.5	—	—	—	0.5	—	0.5
Repurchase and retirement of common stock	—	(330,963)	—	(11.1)	—	—	—	(11.1)	—	(11.1)
Dividends declared ($0.1800 per share)	—	—	—	—	(10.8)	—	—	(10.8)	—	(10.8)
Redemption value adjustment	—	—	—	—	0.2	—	—	0.2	—	0.2
Cumulative effect of accounting changes	—	—	—	(0.3)	0.2	—	—	(0.1)	—	(0.1)
September 2, 2017	**$—**	**59,774,490**	**$ 12.0**	**$ 133.9**	**$ 542.1**	**$ (78.5)**	**$ (1.0)**	**$ 608.5**	**$ 0.2**	**$ 608.7**
Net earnings	—	—	—	—	33.5	—	—	33.5	—	33.5
Other comprehensive income	—	—	—	—	—	3.6	—	3.6	—	3.6
Stock-based compensation expense	—	—	—	1.1	—	—	—	1.1	—	1.1
Exercise of stock options	—	37,469	—	0.9	—	—	—	0.9	—	0.9
Restricted and performance stock units released	—	14,424	—	—	—	—	—	—	—	—
Employee stock purchase plan issuances	—	15,192	—	0.6	—	—	—	0.6	—	0.6
Repurchase and retirement of common stock	—	(177,511)	(0.1)	(6.1)	—	—	—	(6.2)	—	(6.2)
Dividends declared ($0.1800 per share)	—	—	—	—	(10.8)	—	—	(10.8)	—	(10.8)
Redemption value adjustment	—	—	—	—	(0.3)	—	—	(0.3)	—	(0.3)
Cumulative effect of accounting changes	—	—	—	—	(0.1)	—	—	(0.1)	—	(0.1)
December 2, 2017	**$—**	**59,664,064**	**$ 11.9**	**$ 130.4**	**$ 564.4**	**$ (74.9)**	**$ (1.0)**	**$ 630.8**	**$ 0.2**	**$ 631.0**
Net earnings	—	—	—	—	29.8	—	—	29.8	0.2	30.0
Other comprehensive income	—	—	—	—	—	8.5	—	8.5	—	8.5
Stock-based compensation expense	—	—	—	1.8	—	—	—	1.8	—	1.8
Exercise of stock options	—	318,540	—	9.3	—	—	—	9.3	—	9.3
Restricted and performance stock units released	—	11,886	—	0.2	—	—	—	0.2	—	0.2
Employee stock purchase plan issuances	—	16,817	—	0.4	—	—	—	0.4	—	0.4
Repurchase and retirement of common stock	—	(336,849)	(0.1)	(12.7)	—	—	—	(12.8)	—	(12.8)
Directors' fees	—	8,828	—	0.4	—	—	—	0.4	—	0.4
Deferred compensation plan	—	—	—	(0.4)	—	—	0.3	(0.1)	—	(0.1)

Dividends declared ($0.1800 per share)	—	—	—	—	(10.8)	—	—	(10.8)	—	(10.8)
Redemption value adjustment	—	—	—	—	(0.4)	—	—	(0.4)	—	(0.4)
March 3, 2018	**$—**	**59,683,286**	**$ 11.8**	**$ 129.4**	**$ 583.0**	**$ (66.4)**	**$ (0.7)**	**$ 657.1**	**$ 0.4**	**$ 657.5**

For certain items, the sum of the quarterly information above does not equal the year to date amounts reflected throughout this Form 10-Q due to rounding associated with the calculations on an individual quarter basis. These differences are not material to the Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
Three and Nine Months Ended March 2, 2019
(in millions)

1. Basis of Presentation

The condensed consolidated financial statements have been prepared by Herman Miller, Inc. (“the Company”) in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. Management believes the disclosures made in this document are adequate with respect to interim reporting requirements.

The accompanying unaudited condensed consolidated financial statements, taken as a whole, contain all adjustments that are of a normal recurring nature necessary to present fairly the financial position of the Company as of March 2, 2019. Operating results for the three and nine months ended March 2, 2019, are not necessarily indicative of the results that may be expected for the year ending June 1, 2019. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended June 2, 2018.

2. Recently Issued Accounting Standards

Recently Adopted Accounting Standards

Standard	**Description**	**Effective Date**	**Effect on the Financial Statements or Other Significant Matters**
Revenue from Contracts with Customers	The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries and jurisdictions and also requires enhanced disclosures. The standard allows for two adoption methods, a full retrospective or	June 3, 2018	The Company adopted the standard effective June 3, 2018 using the modified retrospective method. Refer to Note 3 to the financial statements for further information regarding the adoption of the standard.

	modified retrospective approach.		
Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities	The standard provides guidance for the measurement, presentation and disclosure of financial assets and liabilities. The standard requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any change in fair value in net income. The standard does not permit early adoption and at adoption a cumulative-effect adjustment to beginning retained earnings should be recorded.	June 3, 2018	The Company adopted the standard effective June 3, 2018 using the modified retrospective method. As a result, the Company reclassified $0.1 million of net gains on mutual fund equity securities, that were formerly classified as available for sale securities before the adoption of the new standard, from Accumulated other comprehensive loss to Retained earnings. The impact of adoption also resulted in certain disclosure changes. Refer to Note 11 of the financial statements for further information.
Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Early adoption is permitted.	September 2, 2018	The Company early adopted the standard prospectively effective September 2, 2018. The impacts resulting from adoption did not have an impact on the Company's Financial Statements.

Recently Adopted Accounting Standards (Continued)

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	This update allows for the reclassification to retained earnings of the tax effects stranded in Accumulated Other Comprehensive Income resulting from The Tax Cuts and Jobs Act. Early adoption is permitted.	September 2, 2018	The Company early adopted the standard effective September 2, 2018 and reclassified $1.5 million from Accumulated other comprehensive loss to Retained earnings related to the tax impact of the Company's interest rate swap agreements.
Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	This standard changes the rules related to the income statement presentation of the components of net periodic benefit cost for defined benefit pension and other postretirement benefit plans. Under the new guidance, entities must present the service cost component of net periodic benefit cost in the same income statement line items as other employee compensation costs related to services rendered during the period. Other components of net periodic benefit cost will be presented separately from the line items that include the service cost. Early adoption is permitted.	June 3, 2018	The Company retrospectively adopted the standard effective June 3, 2018. Prior to adoption, the Company recorded net periodic benefit costs related to its defined benefit pension and post-retirement medical plans within Selling, general and administrative expenses. As a result of adoption, these costs are recorded within Other, net. The Company retrospectively reclassified these costs in the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended March 3, 2018 from Selling, general and administrative to Other, net. Refer to Note 7 of the financial statements for further information.

Recently Issued Accounting Standards Not Yet Adopted

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities	This update amends the hedge accounting recognition and presentation with the objectives of improving the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities and simplifying the application of hedge accounting. The update expands the strategies eligible	June 2, 2019	The Company is currently evaluating the impact of adopting this guidance.

	for hedge accounting, relaxes the timing requirements of hedge documentation and effectiveness assessments and permits the use of qualitative assessments on an ongoing basis to assess hedge effectiveness. The new guidance also requires new disclosures and presentation.		
Leases	Under the updated standard a lessee's rights and obligations under most leases, including existing and new arrangements, would be recognized as assets and liabilities, respectively, on the balance sheet. The standard must be adopted under a modified retrospective approach and early adoption is permitted.	June 2, 2019	The standard is expected to have a significant impact on our Consolidated Financial Statements. The Company does not expect the Statement of Comprehensive Income to be significantly impacted. However, the impact to the balance sheet of recording right of use assets and lease liabilities for the Company’s operating leases, as well as the necessary financial statement disclosures, is expected to be significant. The Company has assembled a project team and is working towards implementation of the lease accounting standard. The Company has substantially completed its identification of the global lease population and the data migration to a lease integration tool that will support the accounting and disclosure requirements under the standard. The Company is currently completing its review and testing of the data entered into the tool and is developing accounting policies and internal controls over the post-implementation lease accounting activities.

Recently Issued Accounting Standards Not Yet Adopted (Continued)

Standard	**Description**	**Effective Date**	**Effect on the Financial Statements or Other Significant Matters**
Measurement of Credit Losses on Financial Instruments	This guidance replaces the existing incurred loss impairment model with an expected loss model and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.	May 31, 2020	The Company is currently evaluating the impact of adopting this guidance.
Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement	This update eliminates, adds and modifies certain disclosure requirements for fair value measurements. Early adoption is permitted, and an entity is also permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date.	May 31, 2020	The Company is currently evaluating the impact of adopting this guidance.
Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans	This update eliminates, adds and clarifies certain disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Early adoption is permitted.	May 30, 2021	The Company is currently evaluating the impact of adopting this guidance.

3. Revenue from Contracts with Customers

Impact of Adoption

The Company adopted *ASC 606 - Revenue from Contracts with Customers* at the beginning of fiscal year 2019. The Company completed its review of the impact of the new standard and identified certain key accounting policy changes that resulted from adopting the new standard. These included changes to the identification of performance obligations for commercial contracts in which the Company sells directly to end customers. Under previous accounting rules, which were codified under ASC 605, the Company generally delayed revenue recognition until the products were shipped and installed as the Company had concluded that contracts that contained both products and services represented a single, combined deliverable. However, under ASC 606, the Company has determined that products and services are distinct and as such, represent separate performance obligations. The Company also determined that under ASC 606, certain product pricing elements related to its direct customer sales should be recorded within Cost of sales rather than net within Net sales as had been historical practice under ASC 605.

The Company adopted ASC 606 using the modified retrospective approach and applied the guidance therein to all applicable contracts that were not complete as of the date of adoption. As a result of these changes in accounting, the Company recorded a cumulative adjustment to retained earnings of $1.9 million on the date of adoption. With the change in performance obligations under ASC 606, product revenue recognition is accelerated on certain direct commercial customer sales. As a result, the cumulative

adjustment recorded upon the adoption of ASC 606 had the impact of reducing inventory for sales transactions that would have been recognized in a prior period under ASC 606 and recording unbilled receivables for the amounts owed prior to invoicing. Additionally, the cumulative adjustment reflects the change in accrued expenses, including income taxes payable, related to these sales transactions.

The cumulative impact to our Condensed Consolidated Balance Sheet as of June 3, 2018 was as follows:

(In millions)	Balance at June 2, 2018	Adjustments due to ASC 606	Balance at June 3, 2018
Balance Sheet			
Assets:			
Unbilled accounts receivable	$ 1.9	$ 11.1	$ 13.0
Inventories, net	162.4	(7.1)	155.3
Liabilities:			
Accrued compensation and benefits	86.3	0.2	86.5
Other accrued liabilities	77.0	1.9	78.9
Equity:			
Retained earnings	598.3	1.9	600.2

In accordance with the modified retrospective adoption rules per ASC 606, the Company has disclosed in the tables below the differences in our financial statements due to the adoption of the standard. The “As reported” column represents the financial statement values recorded in accordance with ASC 606, while the “Legacy GAAP” column represents what the financial statement values would have been under ASC 605, had the new standard not been adopted.

	Three Months Ended March 2, 2019			
(In millions)	As reported	Performance Obligation Change	Gross vs. Net Change	Legacy GAAP
Statement of Comprehensive Income				
Net sales	$619.0	$ 7.4	$ (9.6)	$616.8
Cost of sales	398.0	4.1	(9.6)	392.5
Gross margin	221.0	3.3		224.3
Total operating expenses	173.2	0.1		173.3
Operating earnings	47.8	3.2		51.0
Income tax expense	7.3	0.5		7.8
Net earnings	39.3	2.7		42.0

	Nine Months Ended March 2, 2019			
(In millions)	As reported	Performance Obligation Change	Gross vs. Net Change	Legacy GAAP
Statement of Comprehensive Income				
Net sales	$1,896.2	$ (10.8)	$ (28.1)	$1,857.3
Cost of sales	1,214.5	(6.0)	(28.1)	1,180.4
Gross margin	681.7	(4.8)		676.9
Total operating expenses	534.8	—		534.8
Operating earnings	146.9	(4.8)		142.1
Income tax expense	27.3	(1.1)		26.2
Net earnings	114.6	(3.7)		110.9

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	As of March 2, 2019			
(In millions)	As reported	Performance Obligation Change	Gross vs. Net Change	Legacy GAAP
Balance Sheet				
Assets:				
Unbilled accounts receivable	$25.5	$ (21.9)		$ 3.6
Inventories, net	191.9	12.8		204.7
Liabilities:				
Accrued compensation and benefits	73.9	(0.3)		73.6
Other accrued liabilities	80.4	(3.1)		77.3
Equity:				
Retained earnings	678.3	(5.6)		672.7

There was no impact on Net Cash Provided by Operating Activities within the Company's Condensed Consolidated Statement of Cash Flows as a result of adopting ASC 606.

Accounting Policies

The Company recognizes revenue when performance obligations, based on the terms of customer contracts, are satisfied. This happens when control of goods and services based on the contract have been conveyed to the customer. Revenue for the sale of products is typically recognized at the point in time when control transfers, generally upon transfer of title and risk of loss to the customer. Revenue for services, including the installation of products by the Company's owned dealers, is recognized over time as the services are provided. The method of revenue recognition may vary, depending on the type of contract with the customer, as noted in the section Disaggregated Revenue further below.

The Company's contracts with customers include master agreements and certain other forms of contracts, which do not reach the level of a performance obligation until a purchase order is received from a customer. At the point in time that a purchase order under a contract is received by the Company, the collective group of documents represent an enforceable contract between the Company and the customer. While certain customer contracts may have a duration of greater than a year, all purchase orders are less than a year in duration. As of March 2, 2019, all unfulfilled performance obligations are expected to be fulfilled in the next twelve months.

Variable consideration exists within certain contracts that the Company has with customers. When variable consideration is present in a contract with a customer, the Company estimates the amount that should be included in the transaction price utilizing either the expected value method or the most likely amount method, depending on the nature of the variable consideration. These estimates are primarily related to rebate programs which involve estimating future sales amounts and rebate percentages to use in the determination of transaction price. Variable consideration is included in the transaction price if, in the Company’s judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Adjustments to Net sales from changes in variable consideration related to performance obligations completed in previous periods are not material to the Company's financial statements. Also, the Company has no contracts with significant financing components.

The Company adopted the following accounting policies as a result of adopting the new standard on revenue recognition:

Shipping and Handling Activities - the Company accounts for shipping and handling activities as fulfillment activities and these costs are accrued within Cost of sales at the same time revenue is recognized.

Sales Taxes - the Company does not record revenue for sales tax, value added tax or other taxes that are collected on behalf of government entities. The Company's revenue is recorded net of these taxes as they are passed through to the relevant government entities.

Incremental Costs of Obtaining a Contract - the Company has recognized incremental costs to obtain a contract as an expense when incurred as the amortization period is less than one year.

Significant Financing Component - the Company has not adjusted the amount of consideration to be received for any significant financing components as the Company's contracts have a duration of one year or less.

Disaggregated Revenue

The Company’s revenue is comprised primarily of sales of products and installation services. Depending on the type of contract, the method of accounting and timing of revenue recognition may differ. Below, descriptions have been provided that summarize the Company’s different types of contracts and how revenue is recognized for each.

Single Performance Obligation - these contracts are transacted with customers and include only the product performance obligation. Most commonly, these contracts represent master agreements with independent third-party dealers in which a purchase order represents the customer contract, point of sale transactions through the Consumer reportable segment, as well as customer purchase orders for the Maharam subsidiary within the Specialty reportable segment. For contracts that include a single performance obligation, the Company records revenue at the point in time when title and risk of loss has transferred to the customer.

Multiple Performance Obligations - these contracts are transacted with customers and include more than one performance obligation; products, which are shipped to the customer by the Company and installation and other services, which are primarily fulfilled by independent third-party dealers. For contracts that include multiple performance obligations, the Company records revenue for the product performance obligation at the point in time when control transfers, generally upon transfer of title and risk of loss to the customer. In most cases, the Company has concluded that it is the agent for the installation services performance obligation and as such, the revenue and costs of these services are recorded net within Net sales in the Company’s Condensed Consolidated Statements of Comprehensive Income.

In certain instances, entities owned by the Company, rather than independent third-party dealers, perform installation and other services. In these cases, Service revenue is generated by the Company’s entities that provide installation services, which include owned dealers, and is recognized by the Company over time as the services are provided. For contracts with multiple performance obligations, the Company allocates the transaction price to each performance obligation based on relative standalone selling prices.

Other - these contracts are comprised mainly of alliance fee arrangements, whereby the Company earns revenue for allowing other furniture sellers access to its dealer distribution channel, as well as other miscellaneous selling arrangements. Revenue from alliance contracts are recorded at the point in time in which the sale is made by other furniture sellers through the Company’s sales channel.

Revenue disaggregated by contract type has been provided in the table below:

(In millions)	Three Months Ended March 2, 2019	Nine Months Ended March 2, 2019
Net Sales:		
Single performance obligation		
Product revenue	$ 524.5	$ 1,599.0
Multiple performance obligations		
Product revenue	89.0	281.7
Service revenue	2.8	8.7
Other	2.7	6.8
Total	$ 619.0	$ 1,896.2

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Revenue disaggregated by product type and reportable segment has been provided in the table below:

(In millions)	Three Months Ended March 2, 2019	Nine Months Ended March 2, 2019
North American Furniture Solutions:		
Systems	$ 127.5	$ 415.7
Seating	93.2	289.8
Freestanding and storage	73.5	226.8
Other	26.7	85.5
Total North American Furniture Solutions	$ 320.9	$ 1,017.8
ELA Furniture Solutions:		
Systems	$ 26.8	$ 78.0
Seating	71.8	202.7
Freestanding and storage	14.5	38.7
Other	12.9	40.5
Total ELA Furniture Solutions	$ 126.0	$ 359.9
Specialty:		
Systems	$ 1.2	$ 4.5
Seating	29.5	85.4
Freestanding and storage	17.9	55.5
Textiles	26.5	84.8
Other	1.0	4.8
Total Specialty	$ 76.1	$ 235.0
Consumer:		
Seating	$ 59.2	$ 171.0
Freestanding and storage	15.2	49.2
Other	21.6	63.3
Total Consumer	$ 96.0	$ 283.5
Total	$ 619.0	$ 1,896.2

Refer to Note 16 of the Condensed Consolidated Financial Statements for further information related to our reportable segments.

Contract Assets and Contract Liabilities

The Company records contract assets and contract liabilities related to its revenue generating activities. Contract assets include certain receivables from customers that are unconditional as all performance obligations with respect to the contract with the customer have been completed. These amounts represent trade receivables and they are recorded within the caption “Accounts and notes receivable, net” in the Condensed Consolidated Balance Sheets. The payment terms for the Company's customers differs depending on the type of customer. For third-party dealers and commercial contract customers, standard credit terms apply. Sales transacted through the Company's direct to consumer channels are generally paid for by the customer at point of sale.

Contract assets also include amounts that are conditional because certain performance obligations in the contract with the customer are incomplete as of the balance sheet date. These contract assets generally arise due to contracts with the customer that include multiple performance obligations, both the product that is shipped to the customer by the Company, as well as installation services provided by independent third-party dealers. For these contracts, the Company recognizes revenue upon satisfaction of the product performance obligation. However, the asset is conditional and the customer is not invoiced by the Company until the installation performance obligation is completed. These contract assets are included in the caption "Unbilled accounts receivable" in the Condensed Consolidated Balance Sheets until all performance obligations in the contract with the customer have been satisfied.

Contract liabilities represent deposits made by customers before the satisfaction of performance obligation(s) are complete and revenue is recognized. Upon completion of the performance obligation(s) that the Company has with the customer based on the terms of the contract, the liability for the customer deposit is relieved and revenue is recognized. These customer deposits are included within the caption “Customer deposits” in the Condensed Consolidated Balance Sheets. During the three and nine months ended March 2, 2019, the Company recognized Net sales of $17.8 million and $26.6 million, respectively, related to customer deposits there were included in the balance sheet as of December 1, 2018 and June 2, 2018.

4. Acquisitions and Divestitures

Maars Holding B.V.
On August 31, 2018, Herman Miller Holdings Limited, a wholly owned subsidiary of the Company, acquired 48% of the outstanding equity of Maars Holding B.V. ("Maars"), a Harderwijk, Netherlands-based worldwide leader in the design and manufacturing of interior wall solutions. The Company acquired its 48% ownership interest in Maars for approximately $6.1 million in cash. The entity is accounted for using the equity method of accounting as the Company has significant influence, but not control, over the entity.

For the Maars equity method investment, the fair values assigned to the assets acquired were based on best estimates and assumptions as of the reporting date and are considered preliminary pending completion of the valuation analysis.

Nine United Denmark A/S
On June 7, 2018, Herman Miller Holdings Limited, a wholly owned subsidiary of the Company, acquired 33% of the outstanding equity of Nine United Denmark A/S, d/b/a HAY ("HAY"), a Copenhagen, Denmark-based, design leader in furniture and ancillary furnishings for residential and contract markets in Europe and Asia. The Company acquired its 33% ownership interest in HAY for approximately $65.5 million in cash. The entity is accounted for using the equity method of accounting as the Company has significant influence, but not control, over the entity.

The Company also acquired the rights to the HAY brand in North America under a long-term license agreement for approximately $4.8 million in cash. This licensing agreement is recorded as an amortizing intangible asset and is being amortized over its 15-year useful life. This asset is recorded within Other amortizable intangibles, net within the Condensed Consolidated Balance Sheets.

For the Hay equity method investment, the fair values assigned to the assets acquired were based on best estimates and assumptions as of the reporting date and the valuation analysis was completed in the third quarter of fiscal 2019 with no differences noted from the preliminary valuation.

Contract Furniture Dealerships
On July 31, 2017, the Company completed the sale of a wholly-owned contract furniture dealership in Vancouver, Canada for initial cash consideration of $2.0 million. A pre-tax gain of $1.1 million was recognized as a result of the sale within the caption Selling, general and administrative within the Condensed Consolidated Statements of Comprehensive Income.

5. Inventories, net

(In millions)	March 2, 2019	June 2, 2018
Finished goods	$147.1	$124.2
Raw materials	44.8	38.2
Total	$191.9	$162.4

Inventories are valued at the lower of cost or market and include material, labor, and overhead. The

inventories at our West Michigan manufacturing operations are valued using the last-in, first-out (LIFO) method, whereas inventories of certain other operations are valued using the first-in, first-out (FIFO) method.

6. Goodwill and Indefinite-lived Intangibles

Goodwill and other indefinite-lived intangible assets included in the Condensed Consolidated Balance Sheets consisted of the following as of March 2, 2019 and June 2, 2018:

(In millions)	Goodwill	Indefinite-lived Intangible Assets	Total Goodwill and Indefinite-lived Intangible Assets
June 2, 2018	$ 304.1	$ 78.1	$ 382.2
Foreign currency translation adjustments	(0.1)	—	(0.1)
March 2, 2019	$ 304.0	$ 78.1	$ 382.1

7. Employee Benefit Plans

The following table summarizes the components of net periodic benefit costs for the Company's International defined benefit pension plan for the three and nine months ended:

(In millions)	Three Months Ended		Nine Months Ended	
	March 2, 2019	March 3, 2018	March 2, 2019	March 3, 2018
Interest cost	$0.7	$ 0.8	$2.0	$ 2.5
Expected return on plan assets	(1.1)	(1.7)	(3.3)	(5.3)
Net amortization loss	0.7	1.3	2.0	3.9
Net periodic benefit cost	$0.3	$ 0.4	$0.7	$ 1.1

The Company retrospectively adopted *ASU 2017-07 - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* on June 3, 2018. As the Company's pension and post retirement medical plans are frozen and not open to new plan participants, these plans no longer have a service component in net periodic benefit cost. Prior to adoption, the Company recorded net periodic benefit costs related to its defined benefit pension and post-retirement medical plans within Selling, general and administrative expenses. As a result of adoption, these costs are recorded within Other, net. The Company retrospectively reclassified $0.4 million and $1.2 million of net periodic benefit cost in the Condensed Consolidated Statements of Comprehensive Income for the three and nine month periods ended March 3, 2018, respectively, from Selling, general and administrative to Other, net.

The Company made a voluntary contribution of $12.0 million to its International defined benefit pension plan in the nine month period ended March 3, 2018.

8. Earnings Per Share

The following table reconciles the numerators and denominators used in the calculations of basic and diluted earnings per share (EPS) for the
three and nine months ended:

	Three Months Ended		Nine Months Ended	
	March 2, 2019	March 3, 2018	March 2, 2019	March 3, 2018
Numerators:				
Numerator for both basic and diluted EPS, Net earnings attributable to Herman Miller, Inc. - in millions	$39.2	$ 29.8	$114.5	$ 96.3
Denominators:				
Denominator for basic EPS, weighted-average common shares outstanding	58,838,956	59,691,709	59,087,899	59,753,271
Potentially dilutive shares resulting from stock plans	288,306	670,375	360,395	620,943
Denominator for diluted EPS	59,127,262	60,362,084	59,448,294	60,374,214
Antidilutive equity awards not included in weighted-average common shares - diluted	401,811	101,763	211,097	381,446

9. Stock-Based Compensation

The following table summarizes the stock-based compensation expense and related income tax effect for the three and nine months ended:

(In millions)	Three Months Ended		Nine Months Ended	
	March 2, 2019	March 3, 2018	March 2, 2019	March 3, 2018
Stock-based compensation expense	$2.2	$ 1.8	$7.2	$ 4.8
Related income tax effect	0.5	0.5	1.6	1.4

10. Income Taxes

The Company recognizes interest and penalties related to uncertain tax benefits through income tax expense in its Condensed Consolidated Statement of Comprehensive Income. Interest and penalties recognized in the Company's Condensed Consolidated Statement of Comprehensive Income were negligible for the three and nine months ended March 2, 2019 and March 3, 2018.

The Company's recorded liability for potential interest and penalties related to uncertain tax benefits was:

(In millions)	March 2, 2019	June 2, 2018
Liability for interest and penalties	$ 1.0	$ 1.0

The components of the Company's unrecognized tax benefits are as follows:

(In millions)	
Balance at June 2, 2018	$3.2
Increases related to current year income tax positions	0.3
Decreases related to settlements	(1.1)
Balance at March 2, 2019	$2.4

The balance of unrecognized tax benefits would impact the effective tax rate if recognized.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was signed into law in the United States. The effects of the Act included the reduction of the federal corporate income tax rate from 35% to 21% and a new participation exemption system of taxation on foreign earnings, among other provisions.

In accordance with Staff Accounting Bulletin 118, for the year ended June 2, 2018, the Company recorded a provisional tax benefit of $3.1 million from the impact of the Act. Subsequently, as the U.S. Treasury Department issued additional guidance, the Company recorded adjustments to the provisional tax benefit. During the third quarter of fiscal 2019, the Company completed its accounting for all the effects of the Act. Through the three month and nine month periods ended March 2, 2019, the Company recorded adjustments to the provisional amount to increase the income tax benefit from the Act by $1.8 million and $1.0 million, respectively.

The U.S. Treasury Department and the Internal Revenue Service is expected to continue issuing additional guidance related to the Act, which could have a material impact to the provision for income taxes. If applicable, the Company would recognize any adjustments in the provision for income taxes in the period additional guidance is issued.

Besides the one-time U.S. tax liability on undistributed foreign earnings as required by the Act, no other provision was made for income taxes that may result from future remittances of undistributed earnings of foreign subsidiaries that are determined to be indefinitely reinvested. Determination of the total amount of unrecognized deferred income tax on undistributed earnings of foreign subsidiaries is not practicable.

For tax years beginning after December 31, 2017, the Act subjects a U.S. shareholder to tax on global intangible low-taxed income (“GILTI”) earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an

accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. The Company will account for tax expense related to GILTI in the year the tax is incurred.

In determining the provision for income taxes for the three and nine month periods ended March 2, 2019, the Company used an estimated annual effective tax rate which was based on expected annual income and statutory tax rates across the various jurisdictions in which it operates, which included effects of the Act. The effective tax rates were 16.0% and 19.0%, respectively, for the three month periods ended March 2, 2019 and March 3, 2018. The effective tax rates were 19.6% and 27.3%, respectively, for the nine month periods ended March 2, 2019 and March 3, 2018. The year over year decrease in the effective tax rate for the three and nine months ended March 2, 2019 was the result of the Act. The effective tax rate for the three and nine months ended March 2, 2019 and March 3, 2018 is lower than the United States federal statutory rate due to the mix of earnings in taxing jurisdictions that had rates that were lower than the United States federal statutory rate, along with the research and development tax credit under the Protecting Americans from Tax Hikes ("PATH") Act of 2015.

The Company is subject to periodic audits by domestic and foreign tax authorities. Currently, the Company is undergoing routine periodic audits in both domestic and foreign tax jurisdictions. It is reasonably possible that the amounts of unrecognized tax benefits could change in the next twelve months because of the audits. Tax payments related to these audits, if any, are not expected to be material to the Company's Condensed Consolidated Statements of Comprehensive Income.

For the majority of tax jurisdictions, the Company is no longer subject to state, local, or non-United States income tax examinations by tax authorities for fiscal years before 2012.

11. Fair Value Measurements

The Company's financial instruments consist of cash equivalents, marketable securities, accounts and notes receivable, deferred compensation plan, accounts payable, debt, redeemable noncontrolling interests, interest rate swaps and foreign currency exchange contracts. The Company's financial instruments, other than long-term debt, are recorded at fair value. The carrying value and fair value of the Company's long-term debt, including current maturities, is as follows for the periods indicated:

(In millions)	March 2, 2019	June 2, 2018
Carrying value	$ 285.4	$ 285.8
Fair value	$ 288.1	$ 288.6

The following describes the methods the Company uses to estimate the fair value of financial assets and liabilities, which have not significantly changed in the current period:

Cash and cash equivalents — The Company invests excess cash in short term investments in the form of commercial paper and money market funds. Commercial paper is valued at amortized costs while money market funds are valued using net asset value ("NAV").

Equity securities — The Company's equity securities primarily include equity mutual funds. The equity mutual fund investments are recorded at fair value using quoted prices for similar securities.

Available-for-sale securities — The Company's available-for-sale marketable securities primarily include fixed income mutual funds and government obligations. These investments are recorded at fair value using quoted prices for similar securities.

Foreign currency exchange contracts — The Company's foreign currency exchange contracts are valued using an approach based on foreign currency exchange rates obtained from active markets. The estimated fair value of forward currency exchange contracts is based on month-end spot rates as adjusted by market-based current activity. These forward contracts are not designated as hedging instruments.

Interest rate swap agreements — The value of the Company's interest rate swap agreements is determined using a market approach based on rates obtained from active markets. The interest rate swap agreements are designated as cash flow hedging instruments.

Deferred compensation plan — The Company's deferred compensation plan primarily includes various domestic and international mutual funds that are recorded at fair value using quoted prices for similar securities.

Other — The Company's contingent consideration liabilities and redeemable noncontrolling interests are deemed to be level 3 fair value measurements. Refer to Note 15 for further information regarding redeemable noncontrolling interests.

The following table sets forth financial assets and liabilities measured at fair value through net income and the respective pricing levels to which the fair value measurements are classified within the fair value hierarchy as of March 2, 2019 and June 2, 2018.

(In millions)	March 2, 2019			June 2, 2018		
Financial Assets	NAV	Quoted Prices with Other Observable Inputs (Level 2)	Management Estimate (Level 3)	NAV	Quoted Prices with Other Observable Inputs (Level 2)	Management Estimate (Level 3)
Cash equivalents:						
Money market funds	$31.0	$ —	$ —	$121.0	$ —	$ —
Mutual funds - equity	—	0.9	—	—	0.9	—
Foreign currency forward contracts	—	0.7	—	—	0.4	—
Deferred compensation plan	—	15.9	—	—	15.1	—
Total	$31.0	$ 17.5	$ —	$121.0	$ 16.4	$ —
Financial Liabilities						
Foreign currency forward contracts	$—	$ 0.3	$ —	$—	$ 0.3	$ —
Contingent consideration	—	—	0.4	—	—	0.5
Total	$—	$ 0.3	$ 0.4	$—	$ 0.3	$ 0.5

The following table sets forth financial assets measured at fair value through other comprehensive income and the respective pricing levels to which the fair value measurements are classified within the fair value hierarchy as of March 2, 2019 and June 2, 2018.

(In millions)	March 2, 2019		June 2, 2018	
Financial Assets	Quoted Prices with Other Observable Inputs (Level 2)	Management Estimate (Level 3)	Quoted Prices with Other Observable Inputs (Level 2)	Management Estimate (Level 3)
Mutual funds - fixed income	$ 8.0	$ —	$ 7.7	$ —
Interest rate swap agreement	10.0	—	15.0	—
Total	$ 18.0	$ —	$ 22.7	$ —

The table below presents a reconciliation for liabilities measured at fair value using significant unobservable inputs (Level 3) for the nine months ended (in millions).

Contingent Consideration	March 2, 2019	March 3, 2018
Beginning balance	$ 0.5	$ 0.5
Net realized losses (gains)	—	—
Payments	(0.1)	(0.1)
Ending balance	$ 0.4	$ 0.4

The contingent consideration liabilities represent future payment obligations that relate to business and product line acquisitions. These payments are based on the future performance of the acquired businesses or product line. The contingent consideration liabilities are valued using estimates based on discount rates that reflect the risk involved and the projected sales and earnings of the acquired businesses. The estimates are updated and the liabilities are adjusted to fair value on a quarterly basis.

The following is a summary of the carrying and market values of the Company's fixed income mutual funds and equity mutual funds as of the respective dates:

	March 2, 2019			June 2, 2018		
(In millions)	Cost	Unrealized Gain/(Loss)	Market Value	Cost	Unrealized Gain/(Loss)	Market Value
Mutual funds - fixed income	$8.0	$ —	$ 8.0	$7.8	$ (0.1)	$ 7.7
Mutual funds - equity	0.9	—	0.9	0.7	0.2	0.9
Total	$8.9	$ —	$ 8.9	$8.5	$ 0.1	$ 8.6

The cost of securities sold is based on the specific identification method; realized gains and losses resulting from such sales are included in the Condensed Consolidated Statements of Comprehensive Income within "Other, net".

The Company reviews its investment portfolio for any unrealized losses that would be deemed other-than-temporary and requires the recognition of an impairment loss in earnings. If the cost of an investment exceeds its fair value, the Company evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than its cost, the Company's intent to hold the investment, and whether it is more likely than not that the Company will be required to sell the investment before recovery of the cost basis. The Company also considers the type of security, related industry and sector performance, and published investment ratings. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established. If conditions within individual markets, industry segments, or macro-economic environments deteriorate, the Company could incur future impairments.

The Company views its equity and fixed income mutual funds as available for use in its current operations. Accordingly, the investments are recorded within Current Assets within the Condensed Consolidated Balance Sheets.

On June 3, 2018, as a result of the adoption of *ASU 2016-01 - Financial Instruments*, the Company reclassified net gains on mutual fund equity securities, that were formerly classified as available for sale securities before the adoption of the new standard, from Accumulated other comprehensive loss to Retained earnings. The impact of adoption was not material to the Company's financial statements.

Derivative Instruments and Hedging Activities

Foreign Currency Forward Contracts

The Company transacts business in various foreign currencies and has established a program that primarily utilizes foreign currency forward contracts to reduce the risks associated with the effects of certain foreign currency exposures. Under this program, the Company's strategy is to have increases or decreases in our foreign currency exposures offset by gains or losses on the foreign currency forward contracts to mitigate the risks and volatility associated with foreign currency transaction gains or losses. Foreign currency exposures typically arise from net liability or asset exposures in non-functional currencies on the balance sheets of our foreign subsidiaries. Foreign currency forward contracts generally settle within 30 days and are not used for trading purposes. These forward contracts are not designated as hedging instruments. Accordingly, we record the fair value of these contracts as of the end of the reporting period in the Consolidated Balance Sheets with changes in fair value recorded within the Consolidated Statements of Comprehensive Income. The balance sheet classification for the fair values of these forward contracts is to Other current assets for unrealized gains and to Other accrued liabilities for unrealized losses. The Consolidated Statements of Comprehensive Income classification for the fair values of these forward contracts is to Other expenses (income): Other, net, for both realized and unrealized gains and losses.

Interest Rate Swaps

The Company enters into interest rate swap agreements to manage its exposure to interest rate changes and its overall cost of borrowing. The Company's interest rate swap agreements were entered into to exchange variable rate interest payments for fixed rate payments over the life of the agreement without the exchange of the underlying notional amounts. The notional amount of the interest rate swap agreements is used to measure interest to be paid or received and does not represent the amount of exposure to credit loss. The differential paid or received on the interest rate swap agreements is recognized as an adjustment to interest expense.

The interest rate swaps were designated cash flow hedges at inception and remain an effective accounting hedge as of March 2, 2019. Since a designated derivative meets hedge accounting criteria, the fair value of the hedge is recorded in the Consolidated Statement of Stockholders’ Equity as a component of

Accumulated other comprehensive loss, net of tax. The ineffective portion of the change in fair value of the derivatives is immediately recognized in earnings. The interest rate swap agreements are assessed for hedge effectiveness on a quarterly basis.

In September 2016, the Company entered into an interest rate swap agreement. The interest rate swap is for an aggregate notional amount of $150.0 million with a forward start date of January 3, 2018 and a termination date of January 3, 2028. As a result of the transaction, the Company effectively converted indebtedness anticipated to be borrowed on the Company's revolving line of credit up to the notional amount from a LIBOR-based floating interest rate plus applicable margin to a 1.949% fixed interest rate plus applicable margin under the agreement as of the forward start date.

On June 12, 2017, the Company entered into an interest rate swap agreement. The interest rate swap is for an aggregate notional amount of $75.0 million with a forward start date of January 3, 2018 and a termination date of January 3, 2028. As a result of the transaction, the Company effectively converted the Company's revolving line of credit up to the notional amountfrom a LIBOR-based floating interest rate plus applicable margin to a 2.387% fixed interest rate plus applicable margin under the agreement as of the forward start date.

As of March 2, 2019, the fair value of the Company’s two outstanding interest rate swap agreements, which are designated cash flow hedges, was an asset of $10.0 million. The asset fair value was recorded within Other noncurrent assets within the Condensed Consolidated Balance Sheets. Recorded within Other comprehensive loss, net of tax, for the effective portion of the Company's designated cash flow hedges was a net unrealized loss of $4.4 million and a net unrealized gain of $5.9 million for the three months ended March 2, 2019 and March 3, 2018, respectively. Recorded within Other comprehensive loss, net of tax, for the effective portion of the Company's designated cash flow hedges was a net unrealized loss of $3.9 million and a net unrealized gain of $6.9 million for the nine months ended March 2, 2019 and March 3, 2018, respectively.

There were no gains or losses recognized against earnings for hedge ineffectiveness for the three and nine month periods ended March 2, 2019 and March 3, 2018, respectively. The losses reclassified from Accumulated other comprehensive loss into earnings were $0.2 million and zero for three month periods ended March 2, 2019 and March 3, 2018, respectively. The losses reclassified from Accumulated other comprehensive loss into earnings were $0.3 million and zero for the nine month periods ended March 2, 2019 and March 3, 2018. The net of tax amount expected to be reclassified out of Accumulated other comprehensive loss into earnings during the next twelve months is a $2.0 million gain.

12. Commitments and Contingencies

Product Warranties

The Company provides coverage to the end-user for parts and labor on products sold under its warranty policy and for other product-related matters. The standard length of warranty is 12 years for the majority of products sold; however, this varies depending on the product classification. The Company does not sell or otherwise issue warranties or warranty extensions as stand-alone products. Reserves have been established for the various costs associated with the Company's warranty program and are included in the Condensed Consolidated Balance Sheets under “Accrued warranty.” General warranty reserves are based on historical claims experience and other currently available information. These reserves are adjusted once an issue is identified and the actual cost of correction becomes known or can be estimated. The Company provides an assurance-type warranty that ensures that products will function as intended. As such, the Company's estimated warranty obligation is accounted for as a liability.

(In millions)	Three Months Ended		Nine Months Ended	
	March 2, 2019	March 3, 2018	March 2, 2019	March 3, 2018
Accrual Balance — beginning	$52.4	$ 53.3	$51.5	$ 47.7
Accrual for product-related matters	4.6	4.2	15.3	19.2
Settlements and adjustments	(4.5)	(4.6)	(14.3)	(14.0)
Accrual Balance — ending	$52.5	$ 52.9	$52.5	$ 52.9

Guarantees

The Company is periodically required to provide performance bonds to do business with certain customers. These arrangements are common in the industry and generally have terms ranging between one and three years. The bonds are required to provide assurance to customers that the products and services they have purchased will be installed and/or provided properly and without damage to their facilities. The bonds are provided by various bonding agencies. However, the Company is ultimately liable for claims that may occur against them. As of March 2, 2019, the Company had a maximum financial exposure related to

performance bonds totaling approximately $6.4 million. The Company has no history of claims, nor is it aware of circumstances that would require it to pay, under any of these arrangements. The Company also believes that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not materially affect the Company's financial statements. Accordingly, no liability has been recorded in respect to these bonds as of either March 2, 2019 or June 2, 2018.

The Company has entered into standby letter of credit arrangements for purposes of protecting various insurance companies and lessors against default on insurance premium and lease payments. As of March 2, 2019, the Company had a maximum financial exposure from these standby letters of credit totaling approximately $10.0 million, all of which is considered usage against the Company's revolving line of credit. The Company has no history of claims, nor is it aware of circumstances that would require it to perform under any of these arrangements, and believes that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not materially affect the Company's financial statements. Accordingly, no liability has been recorded in respect of these arrangements as of March 2, 2019 and June 2, 2018.

Contingencies
The Company is also involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation currently pending will not materially affect the Company's consolidated financial statements.

The Company is a party to options, that if exercised, would require the Company to purchase an additional 33% of the equity in HAY at fair market value. These options may be exercised during a period commencing from the third quarter of fiscal 2020 and ending in fiscal 2024.

13. Debt

Long-term debt as of March 2, 2019 and June 2, 2018 consisted of the following obligations:

(In millions)	March 2, 2019	June 2, 2018
Debt securities, due March 1, 2021	$50.0	$50.0
Syndicated revolving line of credit, due September 2021	225.0	225.0
Construction-Type Lease	6.9	7.0
Supplier financing program	3.5	3.8
Total debt	$285.4	$285.8
Less: Current debt	(3.5)	(10.8)
Long-term debt	$281.9	$275.0

The Company's syndicated revolving line of credit provides the Company with up to $400 million in revolving variable interest borrowing capacity and includes an "accordion feature" allowing the Company to increase, at its option and subject to the approval of the participating banks, the aggregate borrowing capacity of the facility by up to $200 million. The facility will expire in September 2021 and outstanding borrowings bear interest at rates based on the prime rate, federal funds rate, LIBOR or negotiated rates as outlined in the agreement. Interest is payable periodically throughout the period if borrowings are outstanding.

As of March 2, 2019, the total debt outstanding related to borrowings under the syndicated revolving line of credit was $225.0 million. Available borrowings against this facility were $165.0 million due to $10.0 million related to outstanding letters of credit. As of June 2, 2018, total debt outstanding related to borrowings under the syndicated revolving line of credit was $225.0 million and available borrowings were $166.8 million due to $8.2 million of outstanding letters of credit.

Supplier Financing Program

The Company has an agreement with a third-party financial institution that allows certain participating suppliers the ability to finance payment obligations from the Company. Under this program, participating suppliers may finance payment obligations of the Company, prior to their scheduled due dates, at a discounted price to the third-party financial institution.

The Company has lengthened the payment terms for certain suppliers that have chosen to participate in the program. As a result, certain amounts due to suppliers have payment terms that are longer than standard industry practice and as such, these amounts have been excluded from the caption “Accounts payable” in the Condensed Consolidated Balance Sheets as the amounts have been accounted for by the Company as a current debt obligation. Accordingly, $3.5 million and $3.8 million have been recorded within the caption “Other accrued liabilities” for the periods ended March 2, 2019 and June 2, 2018, respectively.

Construction-Type Lease

During fiscal 2015, the Company entered into a lease agreement for the occupancy of a new studio facility in Palo Alto, California which runs through fiscal 2026. In fiscal 2017, the Company became the deemed owner of the leased building for accounting purposes as a result of the Company's involvement during the construction phase of the project. The lease is therefore accounted for as a financing transaction and the building and related financing liability were initially recorded at fair value in the Consolidated Balance Sheets within both Construction in progress and Other accrued liabilities. The fair value of the building and

financing liability was determined through a blend of an income approach, comparable property sales approach and a replacement cost approach.

During the first quarter of fiscal 2019, the construction was substantially completed, and the property was placed in service. As a result, the Company began depreciating the assets over their estimated useful lives. The Company also reclassified the related financing liability to Long-term debt. Additionally, the Company began allocating its monthly lease payments between land rent, which is recorded as an operating lease expense, interest expense and the reduction of the related lease obligation. The imputed interest rate on the financing liability is 2.9%, the Company's incremental borrowing rate. The carrying value of the building and the related financing liability were $6.8 million and $6.9 million at March 2, 2019, respectively. The carrying value of the building and the related financing liability were both $7.0 million at June 2, 2018.

14. Accumulated Other Comprehensive Loss

The following table provides an analysis of the changes in accumulated other comprehensive loss for the nine months ended March 2, 2019 and March 3, 2018:

(In millions)	Cumulative Translation Adjustments	Pension and Other Post-retirement Benefit Plans	Unrealized Gains on Available-for-sale Securities	Interest Rate Swap Agreement	Accumulated Other Comprehensive Loss
Balance at June 3, 2017	$ (36.8)	$ (47.6)	$ 0.1	$ 2.1	$ (82.2)
Other comprehensive income before reclassifications	6.3	—	—	6.9	13.2
Reclassification from accumulated other comprehensive loss - Other, net	—	3.2	—	—	3.2
Tax benefit	—	(0.6)	—	—	(0.6)
Net reclassifications	—	2.6	—	—	2.6
Net current period other comprehensive income	6.3	2.6	—	6.9	15.8
Balance at March 3, 2018	$ (30.5)	(45.0)	$ 0.1	$ 9.0	$ (66.4)
Balance at June 2, 2018	$ (34.1)	$ (37.2)	$ 0.1	$ 9.9	$ (61.3)
Cumulative effect of accounting change	—	—	(0.1)	1.5	1.4
Other comprehensive loss before reclassifications	(4.4)	—	—	(4.2)	(8.6)
Reclassification from accumulated other comprehensive loss - Other, net	—	2.0	—	0.3	2.3
Tax benefit	—	(0.3)	—	—	(0.3)
Net reclassifications	—	1.7	—	0.3	2.0
Net current period other comprehensive income	(4.4)	1.7	—	(3.9)	(6.6)
Balance at March 2, 2019	$ (38.5)	$ (35.5)	$ —	$ 7.5	$ (66.5)

15. Redeemable Noncontrolling Interests

Redeemable noncontrolling interests are reported on the Consolidated Balance Sheets in mezzanine equity in “Redeemable noncontrolling interests.” The Company recognizes changes to the redemption value of redeemable noncontrolling interests as they occur and adjusts the carrying value to equal the redemption value at the end of each reporting period. The redemption amounts have been estimated based on the fair value of the subsidiary, determined based on a weighting of the discounted cash flow and market methods. This represents a level 3 fair value measurement.

Changes in the Company’s redeemable noncontrolling interests for thenine months ended March 2, 2019 and March 3, 2018 are as follows:

(In millions)	March 2, 2019	March 3, 2018
Beginning Balance	$30.5	$24.6

Purchase of redeemable noncontrolling interests	(10.1)	(1.0)
Net income attributable to redeemable noncontrolling interests	0.1	0.2
Exercised options	0.2	—
Redemption value adjustment	—	0.5
Ending Balance	$20.7	$24.3

16. Operating Segments

The Company's reportable segments consist of North American Furniture Solutions, ELA Furniture Solutions, Specialty and Consumer. The North American Furniture Solutions segment includes the operations associated with the design, manufacture and sale of furniture products for work-related settings, including office, education and healthcare environments, throughout the United States and Canada. The business associated with the Company's owned contract furniture dealers is also included in the North American Furniture Solutions segment. The ELA Furniture Solutions segment includes the operations associated with the design, manufacture, and sale of furniture products, primarily for work-related settings, in the EMEA, Latin America and Asia-Pacific geographic regions. The Specialty segment includes the operations associated with the design, manufacture, and sale of high-craft furniture products and textiles including Geiger wood products, Maharam textiles, Nemschoff and Herman Miller Collection products. The Consumer segment includes operations associated with the sale of modern design furnishings and accessories to third-party retail distributors, through contract channels, as well as direct to consumer sales through eCommerce and Design Within Reach and HAY retail studios and outlets.

The Company also reports a “Corporate” category consisting primarily of unallocated expenses related to general corporate functions, including, but not limited to, certain legal, executive, corporate finance, information technology, administrative and acquisition-related costs. Management regularly reviews corporate costs and believes disclosing such information provides more visibility and transparency regarding how the chief operating decision maker reviews results of the Company. The accounting policies of the reportable operating segments are the same as those of the Company.

Subsequent to the end of the third quarter of fiscal 2019, on March 12, 2019, the Company announced certain changes to its business leadership and internal reporting structure that may impact its reportable segments starting in the fourth quarter of fiscal 2019. The Company is in the process of evaluating the impact of these changes on its reportable operating segments and goodwill reporting units.

The following is a summary of certain key financial measures for the respective fiscal periods indicated:

	Three Months Ended		Nine Months Ended	
(In millions)	March 2, 2019	March 3, 2018	March 2, 2019	March 3, 2018
Net Sales:				
North American Furniture Solutions	$320.9	$316.4	$1,017.8	$975.3
ELA Furniture Solutions	126.0	102.6	359.9	309.0
Specialty	76.1	72.6	235.0	222.2
Consumer	96.0	86.8	283.5	256.7
Total	$619.0	$578.4	$1,896.2	$1,763.2
Operating Earnings (Loss):				
North American Furniture Solutions	$37.4	$37.8	$128.7	$131.6
ELA Furniture Solutions	16.3	7.6	40.7	27.3
Specialty	2.8	2.0	10.8	5.7
Consumer	2.3	4.2	6.3	5.5
Corporate	(11.0)	(12.9)	(39.6)	(31.5)
Total	$47.8	$38.7	$146.9	$138.6

(In millions)	March 2, 2019	June 2, 2018
Total Assets:		
North American Furniture Solutions	$512.2	$488.7
ELA Furniture Solutions	372.3	283.4
Specialty	201.6	188.7
Consumer	310.8	291.2
Corporate	132.3	227.5
Total	$1,529.2	$1,479.5

17. Restructuring and Impairment Expenses

Fiscal 2019 Restructuring Expenses

ELA segment

During the fourth quarter of fiscal 2018, the Company announced a facilities consolidation plan related to its ELA segment. This impacted certain office and manufacturing facilities in the United Kingdom and China. It is currently contemplated that this plan will generate approximately $3 million in annual cost reductions as part of the Company's three-year cost savings initiatives.

In the third quarter of fiscal 2019, the Company recognized restructuring expenses of $0.3 million related to the consolidation of certain facilities in China and the United Kingdom that were announced in the fourth quarter of fiscal 2018. In the first nine months of fiscal 2019, the Company recognized restructuring and impairment expenses of $1.7 million related to the facilities consolidation plan, comprised primarily of $0.8 million related to an asset impairment recorded against the office building in the United Kingdom that is being vacated and $0.7 million from the consolidation of the Company's manufacturing facilities in China. As the United Kingdom office building and related assets meet the criteria to be designated as assets held for sale, the carrying value of these assets have been classified as current assets and included within "Prepaid expenses and other" in the Condensed Consolidated Balance Sheets for the period ended March 2, 2019. The carrying amount of the assets held for sale was approximately $5.0 million as of March 2, 2019.

To date, the Company has recognized $5.6 million of restructuring costs related to the ELA facilities consolidation plan. The Company expects the ELA facilities consolidations to be completed by the first quarter of fiscal 2020. It is currently contemplated that this plan will incur an additional estimated $2 million of future restructuring charges.

The following table provides an analysis of the changes in ELA segment restructuring costs reserve for the nine months ended March 2, 2019:

(In millions)	Severance and Employee-Related	Impairment of Property and Equipment	Exit or Disposal Activities	Total
Beginning Balance	$ —	$ —	$ —	$—
Restructuring Costs	0.2	0.8	0.7	1.7
Amounts Paid	(0.1)	—	(0.7)	(0.8)
Charges Against Assets	—	(0.8)	—	(0.8)
Ending Balance	$ 0.1	$ —	$ —	$0.1

Fiscal 2018 Restructuring Expenses

North America Contract segment

During the first quarter of fiscal 2018, the company announced restructuring actions involving targeted workforce reductions primarily within the North American segment. These actions related to the company's cost savings initiatives and resulted in the recognition of restructuring expenses of $1.4 million in the first quarter of fiscal 2018. The restructuring actions were deemed to be complete at December 2, 2017 and final payments were made over the next two quarters.

During the second quarter of fiscal 2018, the company announced further restructuring actions involving targeted workforce reductions primarily within the North American segment. These actions related to the

company's previously announced cost savings initiatives and resulted in the recognition of restructuring expenses of $0.5 million in the second quarter of fiscal 2018. The restructuring actions were deemed to be complete at December 2, 2017 and final payments were made over the next two quarters.

The following table provides an analysis of the changes in North America Contract segment restructuring costs reserve for the nine months ended March 3, 2018:

(In millions)	
Beginning Balance	$2.4
Restructuring Costs	1.9
Amounts Paid	(4.0)
Ending Balance	$0.3

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18. Variable Interest Entities

The Company has long-term notes receivable with certain of its third-party owned dealers that are deemed to be variable interests in variable interest entities. The carrying value of these long-term notes receivable was $3.6 million and $2.5 million as of March 2, 2019 and June 2, 2018, respectively, and represents the Company’s maximum exposure to loss. The Company is not deemed to be the primary beneficiary for any of these variable interest entities as each entity controls the activities that most significantly impact the entity’s economic performance, including sales, marketing, and operations.

19. Subsequent Event

Subsequent to the end of the third quarter of fiscal 2019, on March 28, 2019, the Company announced a limited early retirement program available to select U.S. based employees. Employees must apply for the program and most approved retirements will occur within the fourth quarter of fiscal 2019, with payments occurring within the first half of fiscal 2020. Until it is determined which employees will participate in the early retirement program, the Company is unable to estimate the expected impacted to its Consolidated Financial Statements.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations
Three and Nine Months Ended March 2, 2019
(in millions)

The following is management's discussion and analysis of certain significant factors that affected the Company's financial condition, earnings and cash flows during the periods included in the accompanying condensed consolidated financial statements and should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended June 2, 2018. References to “Notes” are to the footnotes included in the accompanying condensed consolidated financial statements.

Business Overview

The Company researches, designs, manufactures, sells, and distributes furnishings and accessories, for use in various environments including office, healthcare, educational, and residential settings, and provides related services that support companies all over the world. The Company's products are sold primarily through independent contract office furniture dealers as well as the following channels: owned contract office furniture dealers, direct customer sales, independent retailers, owned retail studios, direct-mail catalogs and the Company's e-commerce platforms. The following is a summary of the results from continuing operations for the three months ended March 2, 2019:

- Net sales were $619.0 million and orders were $610.7 million, representing an increase of 7.0% and 8.4%, respectively, when compared to the same quarter of the prior year. The increase in net sales was driven primarily by strong performance within the ELA and Consumer segments, as well as a reclassification related to the adoption of the new revenue recognition standard (ASC 606). On an organic basis, net sales were $624.4 million(*) and orders were $615.1 million, representing an increase of 6.3%(*) and 7.6%, respectively, when compared to the same quarter of the prior year.

- Gross margin was 35.7% as compared to 35.6% for the same quarter of the prior year. Excluding the reclassification impact of adopting ASC 606, gross margin improved by 70-basis points compared to the same quarter last year.

- Operating expenses increased by $6.1 million or 3.7% as compared to the same quarter of the prior year. Operating expenses included special charges, totaling $0.5 million, related mainly to costs associated with the CEO transition and external consulting fees associated with the Company's profit enhancement initiatives. Operating expenses also included restructuring costs of $0.3 million related to the consolidation of certain facilities in China and the United Kingdom that were announced in the fourth quarter of fiscal 2018.

- The effective tax rate was 16.0% compared to 19.0% for the same quarter of the prior year. The rate in the current quarter included the final adjustment related to recognizing the impact of the U.S. Tax Cuts and Jobs Act.

- Diluted earnings per share increased $0.17 to $0.66, a 35% increase as compared to the prior year. Excluding the impact of restructuring expenses, other special charges and the final adjustment related to the adoption U.S. tax reform, adjusted diluted earnings per share were $0.64(*), a 28.0% increase as compared to the prior year.

- The Company declared cash dividends of $0.1975 per share compared to $0.1800 per share in the same quarter of the prior year.

The following summary includes the Company's view on the economic environment in which it operates:

- North America remains generally conducive to continued growth due to recent positive industry order trends as reported by BIFMA, GDP growth, service sector employment and architectural billings.

- The Company is monitoring the resolution of trade policy negotiations between the U.S. and key trading partners as well as the ongoing negotiations concerning the U.K. referendum to exit the European Union.

- The Company is also closely monitoring the potential impact of global tariffs. The recent second deferral of the potential 25% tariff rate on goods imported by the Company and its suppliers from China appear to have reduced near-term tariff pressures.

- The Company continues to believe that its profit optimization initiatives and January 2019 price increase will fully offset the current level of tariffs imposed on imports from China. Further contingency plans in the area of strategic sourcing are being evaluated should the tariff situation intensify.

The remaining sections within Item 2 include additional analysis of the three and nine months ended March 2, 2019, including discussion of significant variances compared to the prior year periods.

(*) Non-GAAP measurements; see accompanying reconciliations and explanations.

Reconciliation of Non-GAAP Financial Measures

This report contains references to Organic net sales and Adjusted earnings per share - diluted, which are non-GAAP financial measures. Organic Growth (Decline) represents the change in Net sales, excluding currency translation effects, the impact of the reclassification of certain pricing elements from Net sales to Cost of sales related to the new revenue recognition standard (ASC 606) and the impact of acquisitions, divestitures and changes in shipping terms. Adjusted earnings per share - diluted represents reported diluted earnings per share excluding income tax adjustments related to adoption of U.S. Tax Reform, inventory step up on HAY equity method investment, restructuring and impairment expenses, and other special charges, including related taxes. Special charges include incremental costs related to the CEO transition and third-party consulting costs related to the Company's profit enhancement initiatives.

The Company believes presenting Organic net sales and Adjusted earnings per share - diluted is useful for investors as it provides financial information on a more comparative basis for the periods presented by excluding items that are not representative of the ongoing operations of the Company.

Organic net sales and Adjusted earnings per share - diluted are not measurements of our financial performance under GAAP and should not be considered as alternatives to the related GAAP measurement. These non-GAAP measurements have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Our presentation of non-GAAP measures should not be construed as an indication that our future results will be unaffected by unusual or infrequent items. We compensate for these limitations by providing prominence of our GAAP results and using the non-GAAP financial measures only as a supplement.

The following table reconciles Net sales to Organic net sales for the periods ended as indicated below:

	Three Months Ended 3/2/19					**Three Months Ended 3/3/18**				
	North America	ELA	Specialty	Consumer	**Total**	North America	ELA	Specialty	Consumer	**Total**
Net Sales, as reported	$320.9	$126.0	$76.1	$96.0	$619.0	$316.4	$102.6	$72.6	$86.8	$578.4
% change from PY	1.4 %	22.8 %	4.8 %	10.6 %	7.0 %					
Proforma Adjustments										
Currency Translation Effects (1)	1.3	4.0	—	0.1	5.4	—	—	—	—	—
Impact of Reclassification Related to New Revenue Recognition Standard	—	—	—	—	—	5.9	2.6	0.7	—	9.2
Organic net sales	$322.2	$130.0	$76.1	$96.1	$624.4	$322.3	$105.2	$73.3	$86.8	$587.6
% change from PY	— %	23.6 %	3.8 %	10.7 %	6.3 %					

Nine Months Ended 3/2/19					**Nine Months Ended 3/3/18**				
North America	ELA	Specialty	Consumer	**Total**	North America	ELA	Specialty	Consumer	**Total**
$1,017.8	$359.9	$235.0	$283.5	$1,896.2	$975.3	$309.0	$222.2	$256.7	$1,763.2

Net Sales, as reported										
% change from PY	4.4 %	16.5 %	5.8 %	10.4 %	7.5 %					
<u>Proforma Adjustments</u>										
Dealer Divestitures	—	—	—	—	—	(0.8)	—	—	—	(0.8)
Currency Translation Effects [1]	2.8	8.0	0.1	0.2	11.1	—	—	—	—	—
Impact of Reclassification Related to New Revenue Recognition Standard	—	—	—	—	—	15.8	8.1	1.9	—	25.8
Impact of change in DWR shipping terms	—	—	—	—	—	—	—	—	(5.0)	(5.0)
Organic net sales	$1,020.6	$367.9	$235.1	$283.7	$1,907.	$990.3	$317.1	$224.1	$251.7	$1,783.2
% change from PY	3.1 %	16.0 %	4.9 %	12.7 %	7.0 %					

[1] Currency translation effects represent the estimated net impact of translating current period sales and orders using the average exchange rates applicable to the comparable prior year period

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The following table reconciles Earnings per share - diluted to Adjusted earnings per share - diluted for the three and nine months ended:

	Three Months Ended		**Nine Months Ended**	
	3/2/19	**3/3/18**	**3/2/19**	**3/3/18**
Earnings per Share - Diluted	$0.66	$ 0.49	$1.92	$ 1.60
Add: Adjustments Related to Adoption of U.S. Tax Cuts and Jobs Act	(0.03)	(0.04)	(0.02)	(0.04)
Add: Inventory step up on HAY equity method investment, after tax	—	—	0.01	—
Add: Special charges, after tax	0.01	0.05	0.15	0.06
Add: Restructuring and impairment expenses, after tax	—	—	0.03	0.02
Adjusted Earnings per Share - Diluted	**$0.64**	**$ 0.50**	**$2.09**	**$ 1.64**
Weighted Average Shares Outstanding (used for Calculating Adjusted Earnings per Share) – Diluted	**59,127,[illegible]**	**[illegible],862,084**	**59,448,[illegible]**	**[illegible],474,214**

Analysis of Results for Three and Nine Months

The following table presents certain key highlights from the results of operations for the periods indicated.

(In millions, except per share data)	Three Months Ended			Nine Months Ended		
	March 2, 2019	March 3, 2018	Percent Change	March 2, 2019	March 3, 2018	Percent Change
Net sales	$619.0	$ 578.4	7.0 %	$1,896.2	$1,763.2	7.5 %
Cost of sales	398.0	372.6	6.8 %	1,214.5	1,118.5	8.6 %
Gross margin	221.0	205.8	7.4 %	681.7	644.7	5.7 %
Operating expenses	172.9	167.1	3.5 %	533.1	504.2	5.7 %
Restructuring expenses	0.3	—	N/A	1.7	1.9	(10.5)%
Total operating expenses	173.2	167.1	3.7 %	534.8	506.1	5.7 %
Operating earnings	47.8	38.7	23.5 %	146.9	138.6	6.0 %
Other expenses, net	2.2	2.5	(12.0)%	7.8	8.9	(12.4)%
Earnings before income taxes and equity income	45.6	36.2	26.0 %	139.1	129.7	7.2 %
Income tax expense	7.3	6.9	5.8 %	27.3	35.4	(22.9)%
Equity income from nonconsolidated affiliates, net of tax	1.0	0.7	42.9 %	2.8	2.2	27.3 %
Net earnings	39.3	30.0	31.0 %	114.6	96.5	18.8 %
Net earnings attributable to noncontrolling interests	0.1	0.2	(50.0)%	0.1	0.2	(50.0)%
Net earnings attributable to Herman Miller, Inc.	$39.2	$ 29.8	31.5 %	$114.5	$96.3	18.9 %
Earnings per share — diluted	0.66	0.49	34.7 %	1.92	1.60	20.0 %
Orders	610.7	563.2	8.4 %	1,943.9	1,787.4	8.8 %
Backlog	387.8	341.7	13.5 %			

The following table presents, for the periods indicated, select components of the Company's Condensed Consolidated Statements of Comprehensive Income as a percentage of net sales:

	Three Months Ended		Nine Months Ended	
	March 2, 2019	March 3, 2018	March 2, 2019	March 3, 2018
Net sales	100.0%	100.0 %	100.0%	100.0 %
Cost of sales	64.3	64.4	64.0	63.4
Gross margin	35.7	35.6	36.0	36.6
Operating expenses	27.9	28.9	28.1	28.6
Restructuring expenses	—	—	0.1	0.1
Total operating expenses	28.0	28.9	28.2	28.7
Operating earnings	7.7	6.7	7.7	7.9
Other expenses, net	0.4	0.4	0.4	0.5
Earnings before income taxes and equity income	7.4	6.3	7.3	7.4
Income tax expense	1.2	1.2	1.4	2.0
Equity income from nonconsolidated affiliates, net of tax	0.2	0.1	0.1	0.1
Net earnings	6.3	5.2	6.0	5.5
Net earnings attributable to noncontrolling interests	—	—	—	—
Net earnings attributable to Herman Miller, Inc.	6.3	5.2	6.0	5.5

Consolidated Sales

The following charts present graphically the primary drivers of the year-over-year change in Net sales for the three and nine months ended March 2, 2019. The amounts presented in the bar graphs are expressed in millions and have been rounded to eliminate decimals.

Consolidated Net sales increased $40.6 million or 7.0% in the third quarter of fiscal 2019 compared to the third quarter of fiscal 2018. The following items contributed to the change:

- Increased sales volumes within the ELA segment of approximately $26 million which were driven primarily by broad-based growth across the Asia Pacific, Latin America, Middle East and Mainland Europe regions.
- Adoption of *ASC 606 - Revenue from Contracts with Customers* at the beginning of fiscal 2019 led to the reclassification of certain pricing elements from Net sales to Cost of sales, which resulted in an increase in Net sales of $9.3 million compared to the same period of the prior year in which revenue was recorded under previous accounting rules.
- Increased sales volumes within the Consumer segment of approximately $9 million which were driven primarily by growth across the DWR contract and e-commerce channels, as well as the introduction of HAY products.
- Increased sales volumes within the Specialty segment of approximately $4 million which were driven primarily by growth within the Herman Miller Collection, Maharam and Nemschoff businesses.
- Incremental list price increases, net of deeper contract price discounting, of approximately $1 million.
- Lower sales volumes within the North American segment of approximately $3 million due partially to impacts related to the U.S. government shutdown in the current period.
- Foreign currency translation had a negative impact on net sales of approximately $5 million.

(*) Non-GAAP measurements; see accompanying reconciliations and explanations.

Consolidated net sales increased $133.0 million or 7.5% in the first nine months of fiscal 2019 compared to the first nine months of fiscal 2018. The following items led to the change:

- Increased sales volumes within the ELA segment of approximately $51 million which were driven by broad-based growth across all regions.
- Increased sales volumes within the North American segment of approximately $30 million due to increased demand.
- Adoption of *ASC 606 - Revenue from Contracts with Customers* at the beginning of fiscal 2019 led to the reclassification of certain pricing elements from Net sales to Cost of sales, which resulted in an increase in Net sales of $28.9 million compared to the same period of the prior year in which revenue was recorded under previous accounting rules.
- Increased sales volumes within the Consumer segment of approximately $24 million which were driven primarily by the introduction of HAY products and growth across the DWR studio, e-commerce, and contract channels.
- Increased sales volumes within the Specialty segment of approximately $12 million which were driven primarily by growth within the Herman Miller Collection, Maharam and Nemschoff businesses.
- Foreign currency translation had a negative impact on net sales of approximately $11 million.

Consolidated Gross Margin

Consolidated gross margin was 35.7% for the three month period ended March 2, 2019 as compared to 35.6% for the same quarter of the prior fiscal year. The following factors summarize the major drivers of the year-over-year change in gross margin percentage:

- Profit optimization initiatives increased gross margin by approximately 50 basis points as compared to last fiscal year.
- Lower material costs within the North American segment, due primarily to reduced outsourcing, and the ELA segment, due primarily to channel mix, increased gross margin by approximately 50 basis points as compared to last fiscal year.
- The adoption of the new revenue recognition standard (ASC 606) at the beginning of fiscal 2019 decreased gross margin by approximately 60 basis points. This adoption requires recording certain product pricing elements as expenses within cost of goods sold that were previously classified on a net basis within sales. This reclassification lowers gross margin percentage but has no impact on gross margin dollars.
- Higher commodity costs and the impact of tariffs on Chinese imports drove an unfavorable impact of approximately 30 basis points relative to the prior year period.

Consolidated gross margin was 36.0% for the nine month period ended March 2, 2019 as compared to 36.6% for the same period of the prior fiscal year. The following factors summarize the major drivers of the year-over-year change in gross margin percentage:

- Approximately 60 basis points of the year-over-year decrease in gross margin related to the adoption of the new revenue recognition standard (ASC 606) at the beginning of fiscal 2019. This adoption requires recording certain product pricing elements as expenses within cost of goods sold that were previously classified on a net basis within sales. This reclassification lowers gross margin percentage but has no impact on gross margin dollars.
- Higher commodity costs and the impact of tariffs on Chinese imports drove an unfavorable impact of approximately 30 basis points relative to the prior year period.
- Lower material costs within the North American segment, due primarily to reduced outsourcing, and the ELA segment, due primarily to channel mix, increased gross margin by approximately 40 basis points as

compared to last fiscal period.

- The remaining items contributing to the decrease in gross margin related primarily to increased overhead costs associated with depreciation and medical benefits.

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Operating Expenses and Operating Earnings

The following chart presents graphically the primary drivers of the year-over-year change in operating expenses for the three and nine months ended March 2, 2019. The amounts presented in the bar graphs are expressed in millions and have been rounded to eliminate decimals.
Consolidated operating expenses increased by $6.1 million or 3.7% in the third quarter of fiscal 2019 compared to the prior year period. The following factors contributed to the change:

- Compensation and benefit costs increased by approximately $2 million due mainly to employee headcount and wage increases.
- Incremental spend of approximately $2 million related to the marketing, e-commerce, and studios associated with the launch of the HAY brand in North America.
- Higher IT related expenses increased operating expenses by roughly $1 million.
- Higher employee incentive costs increased operating expenses by approximately $1 million. The increase reflects higher incentive compensation costs that are variable based on the achievement of earnings levels for the fiscal year relative to plan.
- Sales volume based costs, such as sales commissions and royalties, of approximately $1 million.
- Depreciation expense increased by approximately $1 million and was driven primarily by capital investment in facilities and IT systems.
- Special charges decreased by approximately $3 million, primarily as a result of lower third-party consulting fees related to the Company's profit optimization initiatives.
- The rest of the increase in operating expenses was driven mainly by incremental marketing, studio, and warranty expenses.

Consolidated operating expenses increased by $28.7 million or 5.7% in the first nine months of fiscal 2019 compared to the prior year period. The following factors contributed to the change:

- Compensation and benefit costs increased by approximately $6 million due mainly to employee headcount and wage increases.
- Special charges, primarily associated with the planned CEO transition and consulting fees related to the Company's profit optimization initiatives increased operating expenses by approximately $6 million.
- Depreciation expense increased by approximately $5 million and was driven primarily by investment in facilities and IT systems.
- Marketing expenses increased by roughly $4 million due primarily to the sales initiatives within the North American segment.
- Higher IT related expenses of approximately $3 million.
- Incremental spend of approximately $3 million related to the marketing, e-commerce, and studios associated with the launch of the HAY brand in North America.
- Warranty costs were approximately $3 million lower due to specific reserves incurred in the same period of the prior year that did not recur in the current nine month period.
- The rest of the increase in operating expenses was driven mainly by incremental incentive compensation, studio costs, and legal expenses.

Operating earnings for the three and nine month periods ended March 2, 2019 were $47.8 million or 7.7% of sales and $146.9 million or 7.7% of sales, respectively. This compares to $38.7 million or 6.7% of sales and $138.6 million or 7.9% of sales for the respective periods during last fiscal year.

Other Income/Expense

During the three months ended March 2, 2019, net other expense was $2.2 million, a decrease of $0.3 million compared to the same period in the prior year. This decrease resulted mainly from lower interest expense on outstanding debt, combined with greater investment gains associated with the Company's deferred compensation plan in the current quarter relative to investment gains recorded in the prior fiscal year, partially offset by lower interest income.

During the nine months ended March 2, 2019, net other expense was $7.8 million, a decrease of $1.1 million compared to the same period in the prior year. This decrease resulted mainly from lower interest expense on outstanding debt and lower net periodic benefit costs related to the Company's defined benefit pension and post-retirement medical plans, offset by lower investment gains associated with the Company's deferred compensation plan in the current year relative to those recorded in the prior fiscal year.

Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was signed into law in the United States. The effects of the Act included the reduction of the federal corporate income tax rate from 35% to 21% and a new participation exemption system of taxation on foreign earnings, among other provisions.

The Company has completed its accounting for all the effects of the Act in accordance with SAB 118. Provisional estimates were updated to completed amounts for the one-time U.S. tax liability on certain undistributed foreign earnings and remeasurement of net deferred tax liabilities. See Note 10 of the Consolidated Financial Statements for additional information.

The effective tax rates were 16.0% and 19.0%, respectively, for the three month periods ended March 2, 2019 and March 3, 2018. The effective tax rates were 19.6% and 27.3%, respectively, for the nine month periods ended March 2, 2019 and March 3, 2018. The year over year decrease in the effective tax rate for the three and nine months ended March 2, 2019 was the result of the Act. The effective tax rate for the three and nine months ended March 2, 2019 and March 3, 2018 is lower than the United States federal statutory rate due to the mix of earnings in taxing jurisdictions that had rates that were lower than the United States federal statutory rate, along with the research and development tax credit under the Protecting Americans from Tax Hikes ("PATH") Act of 2015.

Reportable Operating Segment Results

The business is comprised of various operating segments as defined by generally accepted accounting principles in the United States. These operating segments are determined on the basis of how the Company internally reports and evaluates financial information used to make operating decisions. For external reporting purposes, the Company has identified the following reportable segments:

- *North American Furniture Solutions* — Includes the operations associated with the design, manufacture and sale of furniture products for work-related settings, including office, education, and Herman Miller healthcare environments, throughout the United States and Canada.
- *ELA Furniture Solutions* — Includes EMEA, Latin America and Asia-Pacific operations associated with the design, manufacture and sale of furniture products, primarily for work-related settings.

- *Specialty* — Includes operations associated with the design, manufacture, and sale of high-craft furniture products and textiles including Geiger wood products, Maharam textiles, Nemschoff and Herman Miller Collection products.
- *Consumer* — Includes operations associated with the sale of modern design furnishings and accessories to third-party retail distributors, through contract channels, as well as direct-to-consumer sales through eCommerce and DWR and HAY retail studios and outlets.
- *Corporate* — *C*onsists primarily of unallocated expenses related to general corporate functions, including, but not limited to, certain legal, executive, corporate finance, information technology, administrative and acquisition-related costs.

The charts below present the relative mix of Net sales and operating earnings across the Company's reportable segments during the three and nine month periods ended March 2, 2019. This is followed by a discussion of the Company's results, by reportable segment.

North American Furniture Solutions ("North America")

	Three Months Ended			Nine Months Ended		
	March 2, 2019	March 3, 2018	Change	March 2, 2019	March 3, 2018	Change
Net sales	$320.9	$316.4	$4.5	$1,017.8	$975.3	$42.5
Gross margin	108.4	105.8	2.6	346.3	341.3	5.0
Gross margin %	33.8 %	33.4 %	0.4 %	34.0 %	35.0 %	(1.0)%
Operating earnings	37.4	37.8	(0.4)	128.7	131.6	(2.9)
Operating earnings %	11.7 %	11.9 %	(0.2)%	12.6 %	13.5 %	(0.9)%

For the three month comparative period, Net sales increased 1.4%, or 0.0%(*) on an organic basis, over the prior year period due to:

- The adoption of *ASC 606 - Revenue from Contracts with Customers* at the beginning of fiscal 2019 which led to the reclassification of $5.1 million of certain pricing elements from net sales to cost of sales; and
- Lower contract price discounting, combined with incremental list price increases, of approximately $3 million; partially offset by
- Lower sales volumes within the North American segment of approximately $3 million due partially to impacts related to the U.S. government shutdown in the current period.

For the three month comparative period, Operating earnings decreased $0.4 million, or 1.1%, over the prior year period due to:

- Increased operating expenses of $3 million driven primarily by increased compensation and benefit costs, warranty expense, and IT costs; offset by
- Increased gross margin of $2.6 million and increased gross margin percentage of 40 basis points due mainly to profit optimization and lower discounting, partially offset by the adoption of ASC 606.

For the nine month comparative period, Net sales increased 4.4%, or 3.1%(*) on an organic basis, over the prior year period due to:

- Increased sales volumes within the North American segment of approximately $30 million due to increased demand; and
- The adoption of *ASC 606 - Revenue from Contracts with Customers* at the beginning of fiscal 2019 which led to the reclassification of $17.2 million of certain pricing elements from net sales to cost of sales; partially offset by
- Deeper contract price discounting, net of incremental list price increases, of roughly $1 million; and
- The impact of foreign currency translation which decreased sales by roughly $3 million.

For the nine month comparative period, Operating earnings decreased $2.9 million, or 2.2%, over the prior year period due to:

- Increased operating expenses of $7.9 million driven primarily by increased depreciation expense, marketing costs, and increased compensation and benefit costs; offset by
- Increased gross margin of $5.0 million due to the increased sales volumes and decreased gross margin percentage of 100 basis points due mainly to the adoption of ASC 606 and higher commodity and tariffs costs, partially offset by profit optimization initiatives.

(*) Non-GAAP measurements; see accompanying reconciliations and explanations.

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ELA Furniture Solutions ("ELA")

	Three Months Ended			Nine Months Ended		
	March 2, 2019	March 3, 2018	Change	March 2, 2019	March 3, 2018	Change
Net sales	$126.0	$102.6	$23.4	$359.9	$309.0	$50.9
Gross margin	42.1	33.2	8.9	119.9	103.3	16.6
Gross margin %	33.4 %	32.4 %	1.0 %	33.3 %	33.4 %	(0.1)%
Operating earnings	16.3	7.6	8.7	40.7	27.3	13.4
Operating earnings %	12.9 %	7.4 %	5.5 %	11.3 %	8.8 %	2.5 %

For the three month comparative period, Net sales increased 22.8%, or 23.6%(*) on an organic basis, over the prior year period due to:

- Increased sales volumes within the ELA segment of approximately $26 million which were driven primarily by broad-based growth across the Asia Pacific, Latin America, Middle East, and Mainland Europe regions; and
- The adoption of *ASC 606 - Revenue from Contracts with Customers* at the beginning of fiscal 2019 which led to the reclassification of $3.5 million of certain pricing elements from net sales to cost of sales; offset by
- The impact of foreign currency translation which decreased sales by roughly $4 million; and
- Deeper contract price discounting, net of incremental list price increases, decreased sales by approximately $2 million.

For the three month comparative period, Operating earnings increased $8.7 million, or 114.5%, over the prior year period due to:

- Increased gross margin of $8.9 million and increased gross margin percentage of 100 basis points due mainly to lower overhead and material costs, which was driven mainly by volume leverage and product mix, offset by deeper discounting and the adoption of ASC 606.

For the nine month comparative period, Net sales increased 16.5%, or 16.0%(*) on an organic basis, over the prior year period due to:

- Increased sales volumes within the ELA segment of approximately $51 million which were driven by broad-based growth across all regions; and
- The adoption of *ASC 606 - Revenue from Contracts with Customers* at the beginning of fiscal 2019 which led to the reclassification of $9.7 million of certain pricing elements from net sales to cost of sales; partially offset by
- The impact of foreign currency translation which decreased sales by roughly $8 million.

For the nine month comparative period, Operating earnings increased $13.4 million, or 49.1%, over the prior year period due to:

- Increased gross margin of $16.6 million and decreased gross margin percentage of 10 basis points due mainly to the adoption of ASC 606 offset by favorable material costs, which was driven mainly by volume leverage and product mix; offset by
- Increased operating expenses of $3.2 million, driven primarily by greater restructuring expense in the current period related to the consolidation of certain facilities in China and the United Kingdom that were

announced in the fourth quarter of fiscal 2018.

(*) Non-GAAP measurements; see accompanying reconciliations and explanations.

Specialty

	Three Months Ended			Nine Months Ended		
	March 2, 2019	March 3, 2018	Change	March 2, 2019	March 3, 2018	Change
Net sales	$76.1	72.6	$3.5	$235.0	$222.2	$12.8
Gross margin	28.2	26.9	1.3	90.0	85.1	4.9
Gross margin %	37.1 %	37.1 %	— %	38.3 %	38.3 %	— %
Operating earnings	2.8	2.0	0.8	10.8	5.7	5.1
Operating earnings %	3.7 %	2.8 %	0.9 %	4.6 %	2.6 %	2.0 %

For the three month comparative period, Net sales increased 4.8%, or 3.8%(*) on an organic basis, over the prior year period due to:

- Increased sales volumes within the Specialty segment of approximately $4 million which were driven primarily by growth within the segment's Herman Miller Collection, Maharam, and Nemschoff businesses; and
- The adoption of *ASC 606 - Revenue from Contracts with Customers* at the beginning of fiscal 2019 which led to the reclassification of $0.7 million of certain pricing elements from net sales to cost of sales.

For the three month comparative period, Operating earnings increased $0.8 million, or 40.0%, over the prior year period due to the increase in sales volumes described above offset partially by an increase in operating expenses.

For the nine month comparative period, Net sales increased 5.8%, or 4.9%(*) on an organic basis, over the prior year period due to:

- Increased sales volumes within the Specialty segment of approximately $12 million which were driven primarily by growth within the segment's Herman Miller Collection, Maharam, and Nemschoff businesses; and
- The adoption of *ASC 606 - Revenue from Contracts with Customers* at the beginning of fiscal 2019 which led to the reclassification of $2.1 million of certain pricing elements from net sales to cost of sales.

For the nine month comparative period, Operating earnings increased $5.1 million, or 89.5%, over the prior year period due to the increase in sales volumes described above.

(*) Non-GAAP measurements; see accompanying reconciliations and explanations.

Consumer

	Three Months Ended			Nine Months Ended		
	March 2, 2019	March 3, 2018	Change	March 2, 2019	March 3, 2018	Change
Net sales	$96.0	86.8	$9.2	$283.5	$256.7	$26.8
Gross margin	42.3	39.9	2.4	125.5	115.0	10.5
Gross margin %	44.1 %	46.0 %	(1.9)%	44.3 %	44.8 %	(0.5)%
Operating earnings	2.3	4.2	(1.9)	6.3	5.5	0.8
Operating earnings %	2.4 %	4.8 %	(2.4)%	2.2 %	2.1 %	0.1 %

For the three month comparative period, Net sales increased 10.6%, or 10.7%(*) on an organic basis, over the prior year period due to:

- Increased sales volumes within the Consumer segment of approximately $9 million which were driven primarily by growth across DWR contract and e-commerce channels, and the introduction of HAY products; and
- Incremental list price increases, net of discounting increases, of approximately $1 million.

For the three month comparative period, Operating earnings decreased $1.9 million, or 45.2%, over the prior year period due to:

- Increased gross margin of $2.4 million on the higher sales volumes and decreased gross margin percentage of 190 basis points due mainly to higher freight and storage costs and a negative change in product mix, partially offset by profit optimization initiatives; and
- An increase in operating expenses of $4.3 million due to incremental marketing, compensation, and depreciation expenses that were driven mainly by new studios and the launch of the HAY brand in North America.

For the nine month comparative period, Net sales increased 10.4%, or 12.7%(*) on an organic basis, over the prior year period due to:

- Increased sales volumes within the Consumer segment of approximately $24 million which were driven primarily by the introduction of HAY products and growth across the Company's DWR studio, e-commerce, and contract channels; and
- Incremental list price increases, net of deeper discounting, which increased net sales by approximately $5 million.

For the nine month comparative period, Operating earnings increased $0.8 million, or 14.5%, over the prior year period due to:

- Increased gross margin of $10.5 million on the higher sales volumes and decreased gross margin percentage of 50 basis points due mainly to higher freight and storage costs, partially offset by profit optimization initiatives; and
- An increase in operating expenses of $9.7 million due to incremental marketing, compensation, and depreciation expenses that were driven mainly by new studios and the launch of the HAY brand in North America.

Corporate

Corporate unallocated expenses totaled $11.0 million for the third quarter of fiscal 2019, a decrease of $1.9 million from the third quarter of fiscal 2018. The decrease was driven primarily by lower special charges related to third-party consulting costs for the Company's profit optimization initiatives, offset by higher employee incentive costs in the current period.

Corporate unallocated expenses totaled $39.6 million for the first nine months of fiscal 2019, an increase of $8.1 million from the same period of fiscal 2018. The increase was driven mainly by incremental special charges of $5.6 million from third-party consulting costs related to the Company's profit optimization initiatives, as well as transition costs related to the retirement of the Company's CEO. Increased legal expenses also contributed to the increase in corporate unallocated expenses from the comparative period.

(*) Non-GAAP measurements; see accompanying reconciliations and explanations.

Financial Condition, Liquidity and Capital Resources

The table below presents certain key cash flow and capital highlights for nine months ended as indicated.

(In millions)	March 2, 2019	March 3, 2018
Cash and cash equivalents, end of period	$ 113.5	$ 193.0
Marketable securities, end of period	8.9	8.4
Cash provided by operating activities	130.6	110.7
Cash used in investing activities	(142.4)	(42.5)
Cash (used in) provided by financing activities	(76.6)	28.3
Capital expenditures	(63.0)	(51.0)
Stock repurchased and retired	(43.4)	(30.1)
Common stock issued	11.1	15.8
Dividends paid	(34.0)	(31.7)
Interest-bearing debt, end of period	281.9	275.0
Available unsecured credit facility, end of period [1]	$ 165.0	$ 166.8

[1] Amounts shown are net of outstanding letters of credit of $10.0 million and $8.2 million as of March 2, 2019 and March 3, 2018, respectively, which are applied against availability under the Company's unsecured credit facility.

Cash Flows - Operating Activities

Nine Month Period Ended March 2, 2019

Cash generated from operating activities was $130.6 million for the nine months ended March 2, 2019, as compared to $110.7 million in the same period of the prior year. Changes in working capital balances drove a use of cash totaling $47.8 million during the first nine months of fiscal 2019. Exclusive of the impact of the cumulative effect adjustment upon adoption of ASC 606, the main factors driving this use of cash were an increase in inventory of $38.3 million and an increase in accounts, notes and unbilled accounts receivable of $14.6 million. These were offset by an increase in other accrued expenses of $8.7 million and an increase in accounts payable of $2.8 million.

Nine Month Period Ended March 3, 2018

Cash generated from operating activities was $110.7 million for the nine months ended March 3, 2018, as compared to $122.1 million in the same period of fiscal 2017. In the first nine months of fiscal 2018, the Company made a voluntary contribution of $12.0 million to its international defined benefit pension plan. Additionally, changes in working capital balances drove a use of cash totaling $30.3 million during the first nine months of fiscal 2018. The main factors driving this use of cash were an increase in inventory of $17.0 million and a decrease in accrued compensation and benefits of $9.0 million. Accrued compensation and benefits decreased due to the annual payout of the prior year accrued bonus and profit sharing. These factors more than offset drivers within working capital that increased cash, including an increase in accounts payable of $12.5 million.

Cash Flows - Investing Activities

Investing activities in the first nine months of fiscal 2019 resulted in a net cash outflow of $142.4 million as compared to a net cash outflow of $42.5 million in the same period of the prior year. Equity investments in the noncontrolled entities of HAY and Maars and the HAY license agreement resulted in a cash outlay of

$71.6 million and $4.8 million, respectively in the first nine months of fiscal 2019.

The Company had cash outflows for the purchase of $63.0 million of capital assets in the first nine months of fiscal 2019 as compared to $51.0 million during the first nine months of the prior year.

At the end of the third quarter of fiscal 2019, there were outstanding commitments for capital purchases of $23.9 million compared to $29.6 million at the corresponding date in the prior year. The Company plans to fund these commitments with cash on hand and/or cash generated from operations. The Company expects full-year capital purchases to be between $85 million and $95 million, which will be primarily related to investments in the Company's facilities and equipment. This compares to full-year capital spending of $70.6 million in fiscal 2018.

Cash Flows - Financing Activities

Cash outflows from financing activities were $76.6 million for the first nine months of fiscal 2019 compared to cash inflows of $28.3 million during the same period of the prior year. Cash outflows for dividend payments were $34.0 million and $31.7 million for the first nine months of fiscal 2019 and fiscal 2018, respectively. Cash paid for the repurchase of common stock was $43.4 million and $30.1 million in the first nine months of fiscal 2019 and 2018, respectively. Cash inflows for stock issuances related to employee benefit programs were $11.1 million and $15.8 million during the first nine months of fiscal 2019 and fiscal 2018, respectively.

Certain minority shareholders in a subsidiary have the right, at certain times, to require the Company to acquire a portion of their ownership interest in those entities at fair value. During the nine months ended March 2, 2019, the Company purchased $10.1 million of minority ownership shares as compared to $1.0 million in the same period last year. It is possible that within the next two fiscal years the Company could be required to acquire the majority of the balance of their ownership interest. The fair value of this redeemable noncontrolling interest as of March 2, 2019 was $20.7 million and is included within "Redeemable noncontrolling interests" on the Consolidated Balance Sheets.

The Company is a party to options, that if exercised, would require the Company to purchase an additional 33% of the equity in HAY at fair market value. These options may be exercised during a period commencing from the third quarter of fiscal 2020 and ending in fiscal 2024.

Sources of Liquidity

In addition to cash flows from operating activities, the Company has access to liquidity through credit facilities, cash and cash equivalents, and short-term investments. These sources have been summarized below. For additional information, refer to Note 13 to the condensed consolidated financial statements.

(In millions)	March 2, 2019	June 2, 2018
Cash and cash equivalents	$ 113.5	$ 203.9
Marketable securities	8.9	8.6
Availability under syndicated revolving line of credit	$ 165.0	$ 166.8

At the end of the third quarter of fiscal 2019, the Company had cash and cash equivalents of $113.5 million, including $80.0 million of cash and cash equivalents held outside the United States. In addition, the Company had marketable securities of $8.9 million held by one of its international subsidiaries.

The subsidiary holding the Company's marketable securities is taxed as a United States taxpayer at the Company's election. Consequently, for tax purposes, all United States tax impacts for this subsidiary have been recorded. The Company maintains its intent to permanently reinvest the remainder of the cash outside the United States. The Tax Cuts and Jobs Act (the “Act”), enacted on December 22, 2017, assesses a one-time tax on deferred foreign income upon transition to a participation exemption system of taxation. The new system of taxation allows for future distribution of foreign earnings to the U.S. without incremental federal income taxes. The Company is considering the impact of the Act and the one-time transition tax on its foreign earnings which are invested in liquidable assets.

The Company believes cash on hand, cash generated from operations, and borrowing capacity will provide adequate liquidity to fund near term and foreseeable future business operations, capital needs, future

dividends and share repurchases, subject to financing availability in the marketplace.

Contractual Obligations

Contractual obligations associated with ongoing business and financing activities will require cash payments in future periods. A table summarizing the amounts and estimated timing of these future cash payments as of June 2, 2018 was provided in the Company's annual report on Form 10-K for the year ended June 2, 2018. There has been no material change in such obligations since that date.

Guarantees

The Company provides certain guarantees to third parties under various arrangements in the form of product warranties, loan guarantees, standby letters of credit, lease guarantees, performance bonds and indemnification provisions. These arrangements are accounted for and disclosed in accordance with FASB ASC Topic 460, *Guarantees,* as described in Note 12 to the Condensed Consolidated Financial Statements.

Variable Interest Entities

On occasion, the Company provides financial support to certain independent dealers in the form of term loans, lines of credit, and/or loan guarantees that may represent variable interests in such entities. As of March 2, 2019, the Company was not considered to be the primary beneficiary of any such dealer relationships under FASB ASC Topic 810, *Consolidation.* Accordingly, the Company is not required to consolidate the financial statements of any of these entities as of March 2, 2019. Refer to Note 18 to the Condensed Consolidated Financial Statements for further information.

Contingencies

See Note 12 to the Condensed Consolidated Financial Statements.

Critical Accounting Policies

The Company strives to report financial results clearly and understandably. The Company follows accounting principles generally accepted in the United States in preparing its consolidated financial statements, which require certain estimates and judgments that affect the financial position and results of operations for the Company. The Company continually reviews the accounting policies and financial information disclosures. A summary of the more significant accounting policies that require the use of estimates and judgments in preparing the financial statements is provided in the Company's annual report on Form 10-K for the year ended June 2, 2018. During the first nine months of fiscal 2019, the Company changed certain accounting policies in connection with the adoption of *ASC 606 - Revenue from Contracts with Customers*. Refer to Note 3 to the Condensed Consolidated Financial Statements for further information.

New Accounting Standards

See Note 2 to the Condensed Consolidated Financial Statements.

Safe Harbor Provisions

Certain statements in this filing are not historical facts but are “forward-looking statements” as defined under 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, employment and general economic conditions, the pace of economic growth in the U.S., and in our International markets, the potential impact of changes in U.S. tax law, 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, the ability to increase prices to absorb the additional costs of raw materials, the financial strength of our dealers and the financial strength of our customers, our ability to locate new DWR and HAY

studios, negotiate favorable lease terms for new and existing locations and the implementation of 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, 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.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

The information concerning quantitative and qualitative disclosures about market risk contained in the Company’s Annual Report on Form 10-K for its fiscal year endedJune 2, 2018 has not changed significantly. The nature of market risks from interest rates and commodity prices has not changed materially during the first nine months of fiscal 2019.

Foreign Exchange Risk

The Company primarily manufactures its products in the United States, United Kingdom, China and India. It also sources completed products and product components from outside the United States. The Company's completed products are sold in numerous countries around the world. Sales in foreign countries as well as certain expenses related to those sales are transacted in currencies other than the Company's reporting currency, the U.S. dollar. Accordingly, production costs and profit margins related to these sales are affected by the currency exchange relationship between the countries where the sales take place and the countries where the products are sourced or manufactured. These currency exchange relationships can also impact the Company's competitive positions within these markets.

The principal foreign currencies in which the Company conducts its business are the British pound sterling, European euro, Canadian dollar, Australian dollar, Japanese yen, Mexican peso, Brazilian real, Indian rupee, South African rand, Hong Kong dollar and Chinese renminbi. In the normal course of business, the Company enters into forward foreign currency exchange swap contracts. Changes in the fair value of such contracts are reported in earnings in the period the value of the contract changes. The net gain or loss upon settlement and the change in fair value of outstanding contracts is recorded as a component of Other expense (income), net.

Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 2, 2019, and the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of that date, the Company's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the quarterly period ended March 2, 2019, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II - Other Information

Item 1: Legal Proceedings

Referred to in Note 12 of the condensed consolidated financial statements.

Item 1A: Risk Factors

There have been no material changes in the Company's risk factors from those set forth in the Company's Annual Report on Form 10-K for the year ended June 2, 2018, except for the following risk factor which supplements and updates the risk factors previously disclosed and should be considered in conjunction with the Risk Factors section in the Company's Annual report on Form 10-K for the year ended June 2, 2018:

Adverse economic and industry conditions could have a negative impact on our business, results of operations, and financial condition.

Other macroeconomic developments, such as the ongoing impasse in negotiations following the United Kingdom referendum on European Union membership (commonly known as Brexit) could negatively affect the Company's ability to conduct business in those geographies. The current political and economic uncertainty relating to Brexit brings caution to the Company’s customer base as capital investments are potentially put on hold pending the outcome of the negotiations. Furthermore, concerns exist relating to potential tariffs and customs regulations and the potential for short term logistics disruption as any such changes are implemented. This will impact both the Company's suppliers and customers, including distributors, and could result in product delays and inventory issues. Further uncertainty in the marketplace also bring risk to accounts receivable and could result in delays in collection and greater bad debt expense. There also remains a risk for the value of the British Pound and/or the Euro to further deteriorate, reducing the purchasing power of customers in these regions and potentially undermining the financial health of the Company's suppliers and customers in other parts of the world.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following is a summary of share repurchase activity during the quarter ended March 2, 2019.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average price Paid per Share or Unit	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may yet be Purchased Under the Plans or Programs (in millions)
12/2/18 - 12/29/18	15,705	$ 29.80	15,705	$24,249,043
12/30/18 - 1/26/19	85,501	$ 32.00	85,501	$21,513,378
1/27/19 - 3/2/19	82,531	$ 34.99	82,531	$268,625,750
Total	183,737		183,737	

The Company repurchased shares under previously announced plans authorized by the Board of Directors. On January 16, 2019, the Board of Directors of Herman Miller, Inc. approved an amendment to the Company's stock repurchase plan authorizing an additional $250 million to fund share repurchases. No repurchase plans expired or were terminated during the third quarter of fiscal 2019, nor do any plans exist under which the Company does not intend to make further purchases. The Board has the authority to terminate any further repurchases. During the period covered by this report, the Company did not sell any of its equity securities that were not registered under the Securities Act of 1933.

Item 3: Defaults upon Senior Securities

None

Item 4: Mine Safety Disclosures

Not applicable

Item 5: Other Information

None

Item 6: Exhibits

The following exhibits (listed by number corresponding to the Exhibit table as Item 601 in Regulation S-K) are filed with this Report:

Exhibit Number	Document
10.1	First Amendment to the Herman Miller, Inc. 2013 Executive Incentive Cash Bonus Plan (*)
31.1	Certificate of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certificate of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certificate of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certificate of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

(*) Denotes compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereto duly authorized.

HERMAN MILLER, INC.

April 10, 2019	/s/ Andrea R. Owen Andrea R. Owen Chief Executive Officer (Duly Authorized Signatory for Registrant)
April 10, 2019	/s/ Jeffrey M. Stutz Jeffrey M. Stutz Chief Financial Officer (Duly Authorized Signatory for Registrant)