MILLER HERMAN INC
Form 10-Q
January 10, 2018

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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 December 2, 2017 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 [_]

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 January 8, 2018 - 59,670,283 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		Six Months Ended	
	December 2, 2017	December 3, 2016	December 2, 2017	December 3, 2016
Net sales	$604.6	$ 577.5	$1,184.8	$ 1,176.1
Cost of sales	382.5	359.5	745.8	728.1
Gross margin	222.1	218.0	439.0	448.0
Operating expenses:				
Selling, general and administrative	152.4	149.0	299.6	303.2
Restructuring expenses and other charges	1.7	1.0	3.8	1.0
Design and research	18.0	18.4	36.5	37.8
Total operating expenses	172.1	168.4	339.9	342.0
Operating earnings	50.0	49.6	99.1	106.0
Other expenses:				
Interest expense	3.7	3.9	7.4	7.6
Other, net	(0.7)	0.4	(1.8)	(0.2)
Earnings before income taxes and equity income	47.0	45.3	93.5	98.6
Income tax expense	14.3	14.5	28.5	31.6
Equity income from nonconsolidated affiliates, net of tax	0.8	0.8	1.5	1.1
Net earnings	33.5	31.6	66.5	68.1
Net earnings (loss) attributable to noncontrolling interests	—	(0.1)	—	0.1
Net earnings attributable to Herman Miller, Inc.	**$33.5**	**$ 31.7**	**$66.5**	**$ 68.0**
Earnings per share — basic	$0.56	$ 0.53	$1.11	$ 1.13
Earnings per share — diluted	$0.55	$ 0.53	$1.10	$ 1.13
Dividends declared, per share	$0.180	$ 0.170	$0.360	$ 0.340
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	$0.1	$ (5.7)	$4.5	$ (10.4)
Pension and other post-retirement plans	0.8	0.3	1.6	1.6
Interest rate swaps	2.6	4.2	1.0	4.2
Other comprehensive income (loss)	3.5	(1.2)	7.1	(4.6)
Comprehensive income	37.0	30.4	73.6	63.5
Comprehensive income (loss) attributable to noncontrolling interests	—	(0.1)	—	0.1
Comprehensive income attributable to Herman Miller, Inc.	**$37.0**	**$ 30.5**	**$73.6**	**$ 63.4**

See accompanying notes to condensed consolidated financial statements.

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

	December 2, 2017	June 3, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 114.6	$ 96.2
Marketable securities	8.5	8.6
Accounts and notes receivable, net	189.8	186.6
Inventories, net	172.2	152.4
Prepaid expenses and other	41.1	48.1
Total current assets	**526.2**	**491.9**
Property and equipment, at cost	1,006.0	968.7
Less — accumulated depreciation	(675.2)	(654.1)
Net property and equipment	**330.8**	**314.6**
Goodwill	304.3	304.5
Indefinite-lived intangibles	78.1	78.1
Other amortizable intangibles, net	42.7	45.4
Other noncurrent assets	69.0	71.8
Total Assets	**$ 1,351.1**	**$ 1,306.3**
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS & STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 166.7	$ 148.4
Accrued compensation and benefits	75.2	79.7
Accrued warranty	53.3	47.7
Other accrued liabilities	101.3	109.9
Total current liabilities	**396.5**	**385.7**
Long-term debt	200.0	199.9
Pension and post-retirement benefits	26.0	38.5
Other liabilities	73.9	69.9
Total Liabilities	**696.4**	**694.0**
Redeemable noncontrolling interests	23.9	24.6
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, 59,664,064 and 59,715,824 shares issued and outstanding in 2018 and 2017, respectively)	11.9	11.9
Additional paid-in capital	130.4	139.3
Retained earnings	564.4	519.5
Accumulated other comprehensive loss	(75.1)	(82.2)
Key executive deferred compensation plans	(1.0)	(1.0)
Herman Miller, Inc. Stockholders' Equity	**630.6**	**587.5**
Noncontrolling Interests	0.2	0.2
Total Stockholders' Equity	**630.8**	**587.7**

Total Liabilities, Redeemable Noncontrolling Interests, and Stockholders' Equity	**$ 1,351.1**	**$1,306.3**

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended December 2, 2017	Six Months Ended December 3, 2016
Cash Flows from Operating Activities:		
Net earnings	$66.5	$ 68.1
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	31.8	28.3
Stock-based compensation	3.0	6.5
Excess tax benefits from stock-based compensation	—	(0.4)
Pension and post-retirement expenses	0.7	0.2
Pension contributions	(12.0)	—
Earnings from nonconsolidated affiliates net of dividends received	(0.3)	(1.0)
Deferred taxes	(1.0)	2.0
Gain on sales of property and dealers	(0.8)	—
Restructuring expenses	3.8	1.0
Increase in current assets	(15.7)	(13.2)
Increase (decrease) in current liabilities	2.5	(1.4)
Increase in non-current liabilities	3.0	4.1
Other, net	—	0.2
Net Cash Provided by Operating Activities	**81.5**	**94.4**
Cash Flows from Investing Activities:		
Proceeds from sale of property and dealers	2.0	—
Equity investment in non-controlled entities	—	(14.5)
Capital expenditures	(39.8)	(46.7)
Payments of loans on cash surrender value of life insurance	—	(15.3)
Proceeds from life insurance policy	8.1	—
Net advances on notes receivable	(0.5)	—
Other, net	(0.4)	(0.8)
Net Cash Used in Investing Activities	**(30.6)**	**(77.3)**
Cash Flows from Financing Activities:		
Dividends paid	(20.9)	(19.0)
Proceeds from issuance of long-term debt	115.4	468.3
Payments of long-term debt	(115.4)	(470.6)
Payment of deferred financing costs	—	(1.4)
Common stock issued	5.7	6.5
Common stock repurchased and retired	(17.3)	(12.1)
Excess tax benefits from stock-based compensation	—	0.4
Purchase of redeemable noncontrolling interests	(1.0)	(1.5)
Net proceeds from supplier financing program	0.4	—
Payment of contingent consideration	(0.1)	(1.0)
Other, net	—	0.1
Net Used in by Financing Activities	**(33.2)**	**(30.3)**

Effect of Exchange Rate Changes on Cash and Cash Equivalents	0.7	0.2
Net Increase (Decrease) in Cash and Cash Equivalents	18.4	(13.0)
Cash and Cash Equivalents, Beginning of Period	96.2	84.9
Cash and Cash Equivalents, End of Period	**$114.6**	**$ 71.9**

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	December 2, 2017	December 3, 2016
Preferred Stock		
Balance at beginning of year and end of period	$—	$ —
Common Stock		
Balance at beginning of year	$11.9	$ 12.0
Exercise of stock options	0.1	—
Repurchase and retirement of common stock	(0.1)	—
Balance at beginning of year and end of period	**$11.9**	**$ 12.0**
Additional Paid-in Capital		
Balance at beginning of year	$139.3	$ 142.7
Cumulative effect of accounting change	(0.3)	—
Repurchase and retirement of common stock	(17.2)	(12.0)
Exercise of stock options	4.7	5.5
Stock-based compensation expense	1.1	4.4
Excess tax benefit for stock-based compensation	—	(0.3)
Restricted stock units released	1.7	1.9
Employee stock purchase plan issuances	1.1	1.1
Balance at end of period	**$130.4**	**$ 143.3**
Retained Earnings		
Balance at beginning of year	$519.5	$ 435.3
Cumulative effect of accounting change	0.1	—
Net income attributable to Herman Miller, Inc.	66.5	68.0
Dividends declared on common stock (per share - 2018: $0.36; 2017; $0.34)	(21.6)	(20.4)
Redeemable noncontrolling interests valuation adjustment	(0.1)	0.3
Balance at end of period	**$564.4**	**$ 483.2**
Accumulated Other Comprehensive Loss		
Balance at beginning of year	$(82.2)	$ (64.5)
Other comprehensive income (loss)	7.1	(4.6)
Balance at end of period	**$(75.1)**	**$ (69.1)**
Key Executive Deferred Compensation		
Balance at beginning of year and end of period	$(1.0)	$ (1.1)
Herman Miller, Inc. Stockholders' Equity	**$630.6**	**$ 568.3**
Noncontrolling Interests		
Balance at beginning of year and end of period	$0.2	$ 0.3
Total Stockholders' Equity	**$630.8**	**$ 568.6**

See accompanying notes to condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements
Three and Six Months Ended December 2, 2017
(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 December 2, 2017. Operating results for the three and six months ended December 2, 2017, are not necessarily indicative of the results that may be expected for the year ending June 2, 2018. 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 3, 2017.

The company's fiscal year ends on the Saturday closest to May 31. Fiscal 2018, the year ending June 2, 2018, and fiscal 2017, the year ended June 3, 2017, contain 52 and 53 weeks, respectively. The six months ended December 2, 2017 and December 3, 2016 contained 26 and 27 weeks, respectively.

2. Recently Issued Accounting Standards

Recently Adopted Accounting Standards

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
Improvements to Employee Share-Based Payment Accounting	Under the new guidance, all excess tax benefits/deficiencies should be recognized as income tax expense/benefit, entities may elect how to account for forfeitures and cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity on the cash flow statement.	June 4, 2017	The company adopted the accounting standard in the first quarter of fiscal 2018. As a result, the company elected to change its policy from estimating forfeitures to recognizing forfeitures when they occur, which resulted in an increase in Retained earnings of $0.2 million, a decrease in Additional paid in capital of $0.3 million and an increase in Other noncurrent assets of $0.1 million in the Condensed Consolidated Balance Sheets. The other impacts resulting from adoption did not have a material impact on the company's Financial Statements.

Recently Issued Accounting Standards Not Yet Adopted

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 modified retrospective approach.	June 3, 2018	The company has completed a preliminary review of the impact of the new standard and expects changes in the identification of performance obligations around product and service revenue. For commercial contracts in which the company sells directly to end customers, in most cases, the company currently delays revenue recognition until the products are shipped and installed and records third-party installation and certain other fees net. However, under the new standard, in most cases, the company will recognize product revenue when title and risk of loss have transferred and will recognize service revenue upon the completion of services. Additionally, the company will record certain product pricing elements related to its direct customer sales within revenue and Cost of Sales rather than net within revenue as is current practice. The company has determined that these elements relate to the product performance obligation which the company is considered to control under the new standard. The company is also in the process of implementing changes to its business processes, systems and controls to support recognition and disclosure under the new standard. The company expects to adopt the standard in fiscal 2019 using the modified retrospective approach.

Recently Issued Accounting Standards Not Yet Adopted (Continued)

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
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 is currently evaluating the impact of adopting this guidance.
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; however, the company is currently evaluating the impact.

3. Acquisitions and Divestitures

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.

On January 1, 2017, the company completed the sale of a wholly-owned contract furniture dealership in Philadelphia, Pennsylvania in exchange for a $3.0 million note receivable. A pre-tax gain of $0.7 million was recognized as a result of the sale within the caption Selling, general and administrative within the Condensed Consolidated Statements of Comprehensive Income. The note receivable was deemed to be a variable interest in a variable interest entity. The carrying value of the note was $2.3 million and $1.4 million as of December 2, 2017 and June 3, 2017, respectively, and represents the company's maximum exposure to loss. The company is not deemed to be the primary beneficiary of the variable interest entity as the buyers of the dealership control the activities that most significantly impact the entity's economic performance, including sales, marketing and operations.

Naughtone Holdings Limited

On June 3, 2016, the company acquired a 50 percent noncontrolling equity interest in Naughtone Holdings Limited ("Naughtone"), a leader in soft seating products, stools, occasional and meeting tables, for $12.4

million in cash consideration. In the second quarter of fiscal 2017, the company paid additional purchase consideration of approximately $0.6 million as part of the final net equity adjustment.

4. Inventories, net

(In millions)	December 2, 2017	June 3, 2017
Finished goods	$ 137.0	$119.0
Raw materials	35.2	33.4
Total	$ 172.2	$152.4

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.

5. 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 December 2, 2017 and June 3, 2017:

(In millions)	Goodwill	Indefinite-lived Intangible Assets	Total Goodwill and Indefinite-lived Intangible Assets
June 3, 2017	$304.5	$ 78.1	$ 382.6
Foreign currency translation adjustments	0.1	—	0.1
Sale of owned contract furniture dealership	(0.3)	—	(0.3)
December 2, 2017	$304.3	$ 78.1	$ 382.4

6. 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 six months ended:

(In millions)	Three Months Ended		Six Months Ended	
	December 2, 2017	December 3, 2016	December 2, 2017	December 3, 2016
Interest cost	$0.8	$ 0.8	$1.6	$ 1.5
Expected return on plan assets	(1.8)	(1.3)	(3.5)	(2.5)
Net amortization loss	1.3	0.6	2.6	1.2
Net periodic benefit cost	$0.3	$ 0.1	$0.7	$ 0.2

The company made a voluntary contribution of $12.0 million to its International defined benefit pension plan in the six month period ended December 2, 2017.

7. 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 six months ended:

	Three Months Ended		Six Months Ended	
	December 2, 2017	December 3, 2016	December 2, 2017	December 3, 2016
Numerators:				
Numerator for both basic and diluted EPS, net earnings attributable to Herman Miller, Inc. - in millions	$33.5	$ 31.7	$66.5	$ 68.0
Denominators:				

Denominator for basic EPS, weighted-average common shares outstanding	59,747,932	59,254,194	59,753,271	59,942,049
Potentially dilutive shares resulting from stock plans	524,275	500,566	543,457	740,883
Denominator for diluted EPS	60,272,207	59,754,760	60,296,728	60,682,932
Antidilutive equity awards not included in weighted-average common shares - diluted	423,678	875,847	356,136	685,450

During fiscal 2017, the company had certain share-based payment awards that met the definition of participating securities. The company evaluated the impact on EPS of all participating securities under the two-class method, which had no impact on diluted EPS.

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8. Stock-Based Compensation

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

(In millions)	Three Months Ended		Six Months Ended	
	December 2, 2017	December 3, 2016	December 2, 2017	December 3, 2016
Stock-based compensation expense				