

MILLER HERMAN INC
Form 10-Q
October 12, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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 September 3, 2016 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)
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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 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 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 Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Common Stock Outstanding at October 10, 2016 - 60,002,239 shares

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

	Three Months Ended	
	September 29, 2016	August 29, 2015
Net sales	\$598.6	\$ 565.4
Cost of sales	368.6	348.6
Gross margin	230.0	216.8
Operating expenses:		
Selling, general, and administrative	154.2	143.1
Design and research	19.4	18.6
Total operating expenses	173.6	161.7
Operating earnings	56.4	55.1
Other expenses:		
Interest expense	3.8	3.9
Other, net	(0.6)	0.5
Earnings before income taxes and equity income	53.2	50.7
Income tax expense	17.0	17.0
Equity earnings from nonconsolidated affiliates, net of tax	0.3	0.1
Net earnings	36.5	33.8
Net earnings attributable to noncontrolling interests	0.2	0.3
Net earnings attributable to Herman Miller, Inc.	\$36.3	\$ 33.5
Earnings per share — basic	\$0.61	\$ 0.56
Earnings per share — diluted	\$0.60	\$ 0.56
Dividends declared, per share	\$0.170	\$ 0.148
Other comprehensive loss, net of tax		
Foreign currency translation adjustments	\$(4.7)	\$(3.5)
Pension and post-retirement liability adjustments	1.3	0.9
Other comprehensive loss	(3.4)	(2.6)
Comprehensive income	33.1	31.2
Comprehensive income attributable to noncontrolling interests	0.2	0.3
Comprehensive income attributable to Herman Miller, Inc.	\$32.9	\$ 30.9

See accompanying notes to condensed consolidated financial statements.

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

	September 3, 2016	May 28, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 65.1	\$84.9
Marketable securities	7.7	7.5
Accounts and notes receivable, net	183.6	211.0
Inventories, net	146.2	128.2
Prepaid expenses and other	48.3	48.9
Total current assets	450.9	480.5
Property and equipment, at cost	944.9	929.0
Less — accumulated depreciation	(656.7) (648.9)
Net property and equipment	288.2	280.1
Goodwill	304.9	305.3
Indefinite-lived intangibles	85.2	85.2
Other amortizable intangibles, net	49.3	50.8
Other noncurrent assets	60.6	33.3
Total Assets	\$ 1,239.1	\$ 1,235.2
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS & STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 159.0	\$ 165.6
Accrued compensation and benefits	60.0	85.2
Accrued warranty	43.9	43.9
Other accrued liabilities	93.3	95.3
Total current liabilities	356.2	390.0
Long-term debt	233.9	221.9
Pension and post-retirement benefits	23.2	25.8
Other liabilities	51.0	45.8
Total Liabilities	664.3	683.5
Redeemable noncontrolling interests	25.7	27.0
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, 60,042,691 and 59,868,276 shares issued and outstanding in 2017 and 2016, respectively)	12.0	12.0
Additional paid-in capital	144.4	142.7
Retained earnings	461.4	435.3
Accumulated other comprehensive loss	(67.9) (64.5)
Key executive deferred compensation plans	(1.1) (1.1)
Herman Miller, Inc. Stockholders' Equity	548.8	524.4
Noncontrolling Interests	0.3	0.3
Total Stockholders' Equity	549.1	524.7
Total Liabilities, Redeemable Noncontrolling Interests, and Stockholders' Equity	\$ 1,239.1	\$ 1,235.2

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)

	Three Months Ended	
	September 2016	August 29, 2015
Cash Flows from Operating Activities:		
Net earnings	\$36.5	\$ 33.8
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	13.9	13.7
Stock-based compensation	3.4	4.0
Excess tax benefits from stock-based compensation	(0.4)	(0.9)
Pension and post-retirement expenses	0.1	0.4
Deferred taxes	3.7	(3.9)
Decrease (increase) in current assets	4.6	(26.6)
(Decrease) increase in current liabilities	(33.5)	9.0
Increase in non-current liabilities	1.8	3.0
Other, net	0.1	0.8
Net Cash Provided by Operating Activities	30.2	33.3
Cash Flows from Investing Activities:		
Proceeds from sales of property	—	3.0
Equity investment in non-controlled entities	(13.9)	—
Capital expenditures	(22.1)	(16.6)
Payments of loans on cash surrender value of life insurance	(15.3)	—
Other, net	(0.1)	0.5
Net Cash Used in Investing Activities	(51.4)	(13.1)
Cash Flows from Financing Activities:		
Dividends paid	(8.8)	(8.4)
Proceeds from issuance of long-term debt	233.5	204.8
Payments of long-term debt	(221.5)	(226.8)
Common stock issued	6.0	0.9
Common stock repurchased and retired	(7.2)	(2.4)
Excess tax benefits from stock-based compensation	0.4	0.9
Purchase of redeemable noncontrolling interests	(1.5)	—
Other, net	(0.1)	(0.1)
Net Cash Provided by (Used in) Financing Activities	0.8	(31.1)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	0.6	(0.8)
Net Decrease in Cash and Cash Equivalents	(19.8)	(11.7)
Cash and Cash Equivalents, Beginning of Period	84.9	63.7
Cash and Cash Equivalents, End of Period	\$65.1	\$ 52.0

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	September 2016	August 29, 2015
Preferred Stock		
Balance at beginning of year and end of period	\$—	\$—
Common Stock		
Balance at beginning of year	\$12.0	\$11.9
Restricted stock units released	—	0.1
Balance at end of period	12.0	12.0
Additional Paid-in Capital		
Balance at beginning of year	\$142.7	\$135.1
Repurchase and retirement of common stock	(7.2)	(2.4)
Exercise of stock options	5.5	0.3
Stock-based compensation expense	2.4	2.5
Excess tax benefit for stock-based compensation	(0.4)	0.6
Restricted stock units released	0.8	0.8
Employee stock purchase plan issuances	0.6	0.4
Balance at end of period	144.4	137.3
Retained Earnings		
Balance at beginning of year	\$435.3	\$338.0
Net income attributable to Herman Miller, Inc.	36.3	33.5
Dividends declared on common stock (per share - 2017: \$0.170; 2016; \$0.148)	(10.3)	(8.9)
Noncontrolling interests redemption value adjustment	0.1	(0.8)
Balance at end of period	461.4	361.8
Accumulated Other Comprehensive Loss		
Balance at beginning of year	\$(64.5)	\$(56.2)
Other comprehensive loss	(3.4)	(2.6)
Balance at end of period	(67.9)	(58.8)
Key Executive Deferred Compensation		
Balance at beginning of year	\$(1.1)	\$(1.2)
Balance at end of period	(1.1)	(1.2)
Herman Miller, Inc. Stockholders' Equity	548.8	451.1
Noncontrolling Interests		
Balance at beginning of year	\$0.3	\$0.5
Net income attributable to noncontrolling interests	—	0.1
Balance at end of period	0.3	0.6
Total Stockholders' Equity	\$549.1	\$451.7

Notes to Condensed Consolidated Financial Statements
 Three Months Ended September 3, 2016
 (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 September 3, 2016. Operating results for the three months ended September 3, 2016, are not necessarily indicative of the results that may be expected for the year ending June 3, 2017. 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 May 28, 2016.

2. Recently Issued Accounting Standards Not Yet Adopted

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
Simplifying the Measurement of Inventory	Under the updated standard, an entity should measure inventory that is measured using either the first-in, first-out ("FIFO") or the average cost methods at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The updated standard should be applied prospectively.	June 4, 2017	The company is currently evaluating the impact of adopting this guidance.
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 is currently evaluating the possible adoption methodologies and the implications of adoption on our consolidated financial statements.
Leases	Under the updated standard a lessee's rights and obligations	June 2,	The standard is

under most leases, including existing and new arrangements, 2019 expected to have a significant impact on our Consolidated Financial Statements, however the company is currently evaluating the impact.

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.

Statement of Cash Flows	The standard amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the standard is to reduce the diversity in practice by laying out consistent principles. The standard must be adopted under a modified retrospective approach and early adoption is permitted.	2018	The company is currently evaluating the impact of adopting this guidance.
Classification of Certain Cash Receipts and Cash Payments	The standard amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the standard is to reduce the diversity in practice by laying out consistent principles. The standard must be adopted under a modified retrospective approach and early adoption is permitted.	June 3, 2018	The company is currently evaluating the impact of adopting this guidance.

3. Fiscal Year

The company's fiscal year ends on the Saturday closest to May 31. Fiscal 2017, the year ending June 3, 2017, and fiscal 2016, the year ended May 28, 2016, contain 53 and 52 weeks, respectively. The first quarter of fiscal 2017 and fiscal 2016 contained 14 and 13 weeks, respectively.

4. Acquisitions

Naughtone Holdings Limited

On June 3, 2016, the company acquired 50 percent of the outstanding equity of Naughtone Holdings Limited ("Naughtone"), a leader in soft seating products, stools, occasional and meeting tables. As part of this arrangement, the company acquired a noncontrolling equity interest in Naughtone Holdings Limited for \$12.4 million in consideration.

5. Inventories, net

(In millions)	September 3, 2016	May 28, 2016
Finished goods	\$ 117.6	\$102.1
Raw materials	28.6	26.1
Total	\$ 146.2	\$128.2

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 subsidiaries 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 September 3, 2016 and May 28, 2016:

(In millions)	Goodwill	Indefinite-lived and Intangible Assets	Total Goodwill and Indefinite-lived Intangible Assets
May 28, 2016	\$ 305.3	\$ 85.2	\$ 390.5
Foreign currency translation adjustments	(0.4)	—	(0.4)
September 3, 2016	\$ 304.9	\$ 85.2	\$ 390.1

7. Employee Benefit Plans

Components of Net Periodic Benefit Costs

(In millions)	Three Months Ended Pension Benefits	
	September 2016	August 29, 2015
International:		
Interest cost	\$0.7	\$ 1.0
Expected return on plan assets	(1.2)	(1.4)
Net amortization loss	0.6	0.7
Net periodic benefit cost	\$0.1	\$ 0.3

8. Earnings Per Share

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

	Three Months Ended	
	September 3, 2016	August 29, 2015
Numerators:		
Numerator for both basic and diluted EPS, net earnings attributable to Herman Miller, Inc. - in millions	\$36.3	\$ 33.5
Denominators:		
Denominator for basic EPS, weighted-average common shares outstanding	59,930,597	57,233,924
Potentially dilutive shares resulting from stock plans	606,384	497,141
Denominator for diluted EPS	60,537,000	57,731,065
Antidilutive equity awards not included in weighted-average common shares - diluted	286,260	43,782

The company has certain share-based payment awards that meet the definition of participating securities. The company has evaluated the impact on EPS of all participating securities under the two-class method, noting the impact on EPS was immaterial.

9. Stock-Based Compensation

The following table summarizes the stock-based compensation expense and related income tax effect for the periods indicated:

(In millions)	Three Months Ended	
	September 3, 2016	August 29, 2015
Stock-based compensation expense	\$ 3.4	\$ 4.0
Related income tax effect	1.2	1.4

Stock-based compensation expense recognized in the Condensed Consolidated Statements of Comprehensive Income for the three month periods ended September 3, 2016 and August 29, 2015 has been reduced for estimated forfeitures, as it is based on awards ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ. Forfeitures are estimated based on historical experience.

For the three month period ended September 3, 2016, the company issued 191,023 shares of common stock related to the exercise of stock options, 81,095 shares of common stock related to the vesting of restricted stock units, and 113,040 shares of common stock related to the vesting of performance share units.

For the three month period ended August 29, 2015, the company issued 17,390 shares of common stock related to the exercise of stock options, 160,319 shares of common stock related to the vesting of restricted stock units, and 55,825 shares of common stock related to the vesting of performance share units.

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 are recognized in the company's Condensed Consolidated Statement of Comprehensive Income. Interest was \$0.1 million and negligible while penalties were \$0.2 million and negligible during the three month periods ended September 3, 2016 and August 29, 2015, respectively. The company's recorded liability for potential interest and penalties related to uncertain tax benefits totaled \$0.9 million and \$0.7 million as of September 3, 2016 and May 28, 2016, respectively. The company had income tax accruals associated with uncertain tax benefits totaling \$3.0 million and \$2.4 million as of September 3, 2016 and May 28, 2016, respectively.

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 as a result 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 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)	September 3, 2016	May 28, 2016
Carrying value	\$ 233.9	\$ 221.9
Fair value	\$ 248.7	\$ 241.7

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:

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

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.

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.

The following tables set forth financial assets and liabilities measured at fair value in the Condensed Consolidated Balance Sheets and the respective pricing levels to which the fair value measurements are classified within the fair value hierarchy as of September 3, 2016 and May 28, 2016.

(In millions)	Fair Value Measurements			
	September 3, 2016		May 28, 2016	
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)
	Available-for-sale marketable securities:			
Government obligations	\$0.4	\$ —	\$0.4	\$ —
Mutual funds - fixed income	6.6	—	6.4	—
Mutual funds - equity	0.7	—	0.7	—
Foreign currency forward contracts	0.4	—	0.5	—

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Deferred compensation plan	8.8	—	7.9	—
Total	\$16.9	\$ —	\$15.9	\$ —
Financial Liabilities				
Foreign currency forward contracts	\$0.5	\$ —	\$0.8	\$ —
Contingent consideration	—	2.7	—	2.7
Total	\$0.5	\$ 2.7	\$0.8	\$ 2.7

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

Contingent Consideration	September 3, 2016	May 28, 2016
Beginning balance	\$ 2.7	\$2.6
Foreign currency translation adjustments	—	(0.1)
Settlements	—	(2.5)