

Notice of  
Annual Meeting of Shareholders  
Proxy Statement

2019

Herman Miller, Inc. and Subsidiaries

September 3, 2019

Dear Fellow Herman Miller Shareholder,

I joined Herman Miller in 2018, knowing it was a company with a rich history of believing in bigger ideas about what a company can do for its customers, shareholders, and communities. In the months since, I've been energized as I witness our mission of "inspiring designs to help people do great things" in action. I'm proud of our 8,000 employees who harness the same creativity, spirit, and dedication our company was founded on to help drive meaningful progress toward our mission and our financial results.

For fiscal year 2019, sales of \$2.57 billion marked a record level for the fourth consecutive year and reflected growth across each of our business segments. While we faced higher commodity and tariff costs, we offset these pressures through well-managed operating expenses to drive operating margin expansion for the full year. We reported diluted earnings per share on a GAAP basis of \$2.70 for fiscal year 2019, and adjusted EPS of \$2.97<sup>(1)</sup> increased by 29% over the prior year. Based on our financial performance and confidence in our strategic direction, we announced a 6% dividend increase in June 2019.

Our innovation pipeline has been active this year. We launched the Cosm high performance office chair, Canvas Vista desking system, and Overlay moveable wall offering, which all outperformed our expectations. Cosm in particular won a number of awards, including the Fast Company Innovation by Design Award and the Orgatec Innovation Award. We also invested in bringing HAY's influential product design and democratic pricing into our North American contract and retail ecosystem and expanded our offering by investing in Maars Living Walls, a global leader in architectural glass walls.

Our competitive landscape and the realities our customers face also continue to evolve. With that in mind, and with a newly-assembled leadership team in place, we've been deeply engaged in developing and rolling out our new strategic plan over the past year to address these new realities.

The following four pillars of our strategic plan aim to help us create value for both our customers and our shareholders, and we are already making progress on each.

### **Unlock the Power of One Herman Miller**

Our product offering has evolved substantially over the years as a result of new product development, M&A, and strategic partnerships. We've evolved into the Herman Miller Group: a family of brands that collectively offers a purposeful variety of products for wherever people live, learn, work, and heal. We showcased the power of our brands working together in the All Together Now exhibition at Milan Design Week, and at Chicago's NeoCon tradeshow, where we were honored to be recognized for the Best Large Showroom.

Coming together as One Herman Miller helps us achieve our goals of more actively moving into the consumer marketplace, growing globally, and making it easier to do business with us. In order to fully leverage the power of coming together as One Herman Miller, we are undertaking efforts to become more agile, invest in responsive innovation, simplify our go-to-market strategy, and continue to lead in product innovation across all of our businesses around the world.

### **Build a Customer-centric, Digitally-enabled Business Model**

Building a customer-centric and digitally-enabled business model is a key enabler of making it easier for customers to do business with us. We are developing a deeper understanding of the customer journey across each of our businesses in order to deliver inspired products and frictionless customer experiences. We are investing in data, analytics, and digital marketing capabilities to help us develop a holistic view of our customers and become even more consumer-centric in our innovation efforts. Finally, we're working hard to strengthen our core technology infrastructure in support of our digital transformation efforts.

We are working to ensure our brands are fully social media-optimized, which will help us drive end-to-end engagement throughout the customer journey while personalizing the experience to foster brand loyalty. We're also leveraging the success of our new visualization tool for our North America workplace designers into our International markets to provide our dealers with world-class capabilities to help our end customers discover, navigate, and select from our entire portfolio of products.

### **Accelerate Profitable Growth**

We see clear opportunities for profitable growth across our business segments. In fact, we believe we are the only player in our space with meaningful access to both global contract and global retail growth opportunities, and we aim to strengthen and evolve them both.

In North America, we have integrated our Specialty business into our North America Contract business. Bringing these businesses together better aligns our sales teams and makes it easier for our dealers and our customers to access our entire product portfolio. Ultimately, we believe this combination will help us capture a greater share of our dealer and end customer business. Additionally, our North America profit improvement

initiative is playing a key role in accelerating profitable growth in this business. We're expecting to achieve \$30 million to \$40 million in run-rate savings from this initiative by the end of fiscal year 2020 and are starting to leverage these learnings across the rest of our businesses as well.

With our fast-growing retail business representing 15% of our revenue, we're actively working on making the Design Within Reach offering more available across North America, while also scaling the HAY brand across our retail footprint. We're enhancing our direct-to-consumer capabilities with new digital tools in our Studios and online, and we are moving to a new state-of-the-art distribution center to improve our customer delivery experience.

Finally, with sales growth of 13% in fiscal year 2019, we see continued opportunity for our International business to build on its momentum and continue driving profitable growth. To help accelerate that growth, we plan to continue expanding our dealer distribution network, enter new product categories, grow our ancillary offering, and better align our global accounts team to enhance our ability to serve our largest global customers.

### **Reinforce Our Commitment to Our People, Planet, Communities**

On the heels of our 12th consecutive year of inclusion on the Human Rights Campaign Corporate Equality Index, we believe now is the right time to reinforce our commitment to our people, our planet, and our communities in a more integrated and deliberate way than ever before. We'll focus on building, developing, and retaining world-class talent, shaping an inclusive and diverse workforce, and elevating our commitment to sustainability. Beyond simply being the right thing to do, we are confident that elevating our focus on social and environmental business practices will positively impact our customers and enhance returns for our shareholders over the long term.

With distinct and differentiated sources of competitive advantage, clear strategic priorities, and a strong track record of financial performance, we have a winning foundation for our future. Our product library, innovation capabilities and design processes, world-class talent, global scale, and omnichannel reach give us a leg up in a world that's constantly changing. I'm confident that our vision for the future will enable us to provide our customers with the most innovative and inspiring solutions wherever they work, live, heal, and learn.

In closing, I want to thank all of our employees for their tremendous effort this year in delivering these results. We are excited to build on this momentum as we execute against our strategy.

Thank you for your continued support of Herman Miller.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrea R. Owen". The signature is fluid and cursive, with the first name being the most prominent.

*Andrea R. Owen*  
*President and Chief Executive Officer*

<sup>(1)</sup> *Non-GAAP measurements; see accompanying reconciliations and explanations on pg. 48.*

## Notice of Annual Meeting of Shareholders of Herman Miller, Inc.

The Annual Meeting of the Shareholders of Herman Miller, Inc. will be held virtually on October 14, 2019, beginning promptly at 11:00 a.m., ET. Shareholders will be able to listen, vote, and submit questions from any remote location that has Internet connectivity. There will be no physical location for shareholders to attend. Shareholders may participate online by logging in at [www.virtualshareholdermeeting.com/MLHR19](http://www.virtualshareholdermeeting.com/MLHR19) and entering the 16-digit control number included on your notice of Internet availability of the proxy materials, on your proxy card, or on the instructions that accompanied your proxy materials.

### Items of Business:

1. To elect three director nominees, each for a term of three years.
2. To ratify the Audit Committee's selection of KPMG LLP as Herman Miller's independent registered public accounting firm for fiscal year 2020.
3. To vote, on an advisory basis, to approve the annual compensation of the Named Executive Officers.
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record at the close of business on August 16, 2019, will be eligible to vote at this year's annual meeting.

Please note that this year's Annual Shareholders' Meeting will be held via the Internet only. Herman Miller's accompanying proxy materials include instructions on how to participate in the meeting and the means by which you may vote your shares of company stock.

**We encourage each shareholder to vote at your earliest convenience, by one of the following means:**

**By visiting [www.proxyvote.com](http://www.proxyvote.com) on the Internet**

And if you require paper materials:

**By calling (within the U.S. or Canada) toll free at 1-800-690-6903; or**

**By signing and returning your Proxy card**

You may also vote at the meeting via the internet by visiting [www.virtualshareholdermeeting.com/MLHR19](http://www.virtualshareholdermeeting.com/MLHR19) and following the instructions. Regardless of whether you expect to attend the meeting through the Internet, please vote your shares in one of the ways listed above.

*By order of the Board of Directors*

*Jacqueline H. Rice, General Counsel and Acting Secretary*

*September 3, 2019*

## Table of Contents

	Page No.
Solicitation of Proxies and Voting (Q&A)	<a href="#">5</a>
Financial Highlights from 2019	<a href="#">8</a>
Proposal #1 - Election of Directors	<a href="#">9</a>
Corporate Governance and Board Matters	<a href="#">13</a>
Board Committees	<a href="#">15</a>
Proposal #2 - Ratification of Audit Committee's selection of Independent Registered Public Accounting Firm	<a href="#">16</a>
Report of the Audit Committee	<a href="#">17</a>
Proposal #3 - Proposal to Approve, on an Advisory Basis, the Annual Compensation Paid to the Company's Named Executive Officers	<a href="#">18</a>
Voting Securities and Principal Shareholders	<a href="#">18</a>
Director and Executive Officer Information	<a href="#">19</a>
Letter from Board Executive Compensation Committee Chair	<a href="#">20</a>
Compensation Discussion and Analysis	<a href="#">21</a>
Executive Compensation Committee Report	<a href="#">34</a>
Summary Compensation Table	<a href="#">35</a>
Grants of Plan-Based Awards	<a href="#">37</a>
Outstanding Equity Awards at Fiscal Year-End	<a href="#">38</a>
Option Exercises and Stock Vested	<a href="#">39</a>
Pension Benefit	<a href="#">39</a>
Nonqualified Deferred Compensation	<a href="#">40</a>
Potential Payments upon Termination, Death, Disability, Retirement or Change in Control	<a href="#">41</a>
Pay Ratio	<a href="#">45</a>
Director Compensation	<a href="#">45</a>
Equity Compensation Plan Information	<a href="#">47</a>
Section 16(a) Beneficial Ownership Reporting Compliance	<a href="#">47</a>
Certain Relationships and Related Party Transactions	<a href="#">47</a>
Reconciliation of Non-GAAP Financial Measures	<a href="#">48</a>
Miscellaneous	<a href="#">50</a>

## Herman Miller, Inc.

855 East Main Avenue  
PO Box 302  
Zeeland, Michigan 49464-0302

### **Proxy Statement Dated September 3, 2019**

This Proxy Statement and the accompanying Proxy, which we are making available to shareholders on or about September 3, 2019, are furnished to the shareholders of Herman Miller, Inc. in connection with the solicitation by the Board of Directors of proxies to be used at the Annual Meeting of Shareholders. This meeting will be held on October 14, 2019, at 11:00 a.m., ET. Please note that this year's Annual Meeting will once again be held via the Internet rather than in person.

### **What is a proxy?**

A proxy is your authorization for someone else to vote your shares for you in the way that you want to vote and allows you to be represented at our Annual Meeting if you are unable to attend the meeting. When you complete and submit a proxy card or use the automated telephone voting system or the Internet voting system, you are submitting a proxy. As used in this Proxy Statement, the terms "the Company," "we," "our" and "us" all refer to Herman Miller, Inc. and its subsidiaries.

### **What is a Proxy Statement?**

A Proxy Statement is a document the United States Securities and Exchange Commission ("SEC") requires to explain the matters on which we are asking you to vote at our Annual Meeting by proxy and to disclose certain information that may be helpful to you in deciding how to vote. This Proxy Statement was first made available to the shareholders on or about September 3, 2019.

### **Why am I receiving my proxy materials electronically instead of receiving paper copies through the mail?**

We are furnishing proxy materials to our shareholders primarily via the Internet, instead of mailing printed copies of the Proxy Statement and Annual Report. This supports our ongoing commitment to sustainability by reducing the amount of paper needed to circulate the proxy materials and at the same time reducing our costs associated with mailing the proxy materials to shareholders.

On or about September 3, 2019, we mailed to our shareholders of record (other than those who previously requested electronic delivery) a Notice of Internet Availability of Proxy Materials containing instructions on how to access this Proxy Statement and our Annual Report online. If you received a Notice of Internet Availability of Proxy Materials by mail, you will not receive a printed copy of the proxy materials in the mail. The Notice of Internet Availability of Proxy Materials instructs you on how to electronically access and review all information contained in this Proxy Statement and the Annual Report, and it provides you with information on voting.

If you received a Notice of Internet Availability of Proxy Materials by mail and would like to receive a paper copy of our proxy materials, follow the instructions contained in the Notice of Internet Availability of Proxy Materials about how you may request to receive your materials in printed form on a one-time or ongoing basis.

### **Where is this year's Proxy Statement available electronically?**

You may view this Proxy Statement and the 2019 Annual Report electronically by going to <https://www.hermanmiller.com/investors/annual-reports/>.

### **Who can vote?**

Only record holders of our common stock at the close of business on August 16, 2019 can vote at the Annual Meeting. We refer to that date as the Record Date for the meeting. Each shareholder of record has one vote, for each share of common stock owned, on each matter presented for a vote at the Annual Meeting.

### **What is the difference between a shareholder of record and a "street name" holder?**

If your shares are registered directly in your name on the records of our transfer agent, then you are the shareholder of record with respect to those shares.

If your shares are held in a stock brokerage account or by a bank or other nominee, then the brokerage firm, bank or other nominee is considered to be the shareholder of record with respect to those shares. However, you still are considered the beneficial owner of those shares, and your shares are said to be held in "street name." Street name holders generally cannot vote their shares directly and must instead instruct the brokerage firm, bank or other nominee how to vote their shares. See "How can I vote?" below.

### **How can I vote?**

If your shares are held in “street name,” follow the instructions provided by your brokerage firm, bank, or other nominee. If your shares are registered directly in your name on our records, you can vote in one of four ways:

- Via Internet before the Annual Meeting: Go to [www.proxyvote.com](http://www.proxyvote.com) and follow the instructions. You may do this at your convenience, 24 hours a day, 7 days a week. You will need to have your proxy card or Notice of Internet Availability of Proxy Materials in hand. The deadline for Internet voting is 11:59 p.m., Eastern Time, October 13, 2019.
- By Telephone: If you have requested paper materials, call toll-free 1-800-690-6903 and follow the instructions. You may do this at your convenience, 24 hours a day, 7 days a week. You will need to have your proxy card or Notice of Internet Availability of Proxy Materials in hand. The deadline for voting by phone is 11:59 p.m., Eastern Time, October 13, 2019.
- In Writing: If you received a proxy card, complete, sign, and date the proxy card and return it in the return envelope that we provided with your proxy card.
- At the Annual Meeting: Log on to the Internet at [www.virtualshareholdermeeting.com/MLHR19](http://www.virtualshareholdermeeting.com/MLHR19). At this site, you will be able to vote electronically. You will also be able to submit questions.

If you submit a proxy to the Company before the Annual Meeting, whether by proxy card, by telephone or by Internet, the persons named as proxies will vote your shares as you direct. If no instructions are specified, the proxy will be voted for the three directors nominated by the Board of Directors; for the ratification of the appointment of KPMG LLP as the Company’s independent registered public accounting firm for the fiscal year ending May 30, 2020; and for the non-binding advisory proposal to approve the compensation of our Named Executive Officers.

### **Can I revoke my proxy?**

You may revoke a proxy at any time before the proxy is exercised by:

- (1) delivering written notice of revocation to the Corporate Secretary of the Company, 855 East Main Street, P.O. Box 302, Zeeland, Michigan 49464-0302;
- (2) submitting another properly completed proxy card that is later dated;
- (3) voting by telephone at a subsequent time;
- (4) voting via the Internet at a subsequent time; or
- (5) voting at the Annual Meeting.

If you hold your shares in “street name,” you must vote your shares in the manner that your brokerage firm, bank or other nominee has prescribed.

### **How many votes do we need to hold the Annual Meeting?**

To carry on the business of the meeting, we must have a quorum. This means that at least a majority of the shares that are outstanding and entitled to vote as of the Record Date must be in attendance at the virtual meeting or by proxy.

Shares are counted as in attendance at the meeting if the shareholder has either:

- submitted a signed proxy card or other form of proxy (through the telephone or Internet); or
- logged into the virtual meeting using their 16-digit control number and votes electronically during meeting.

On the Record Date, there were 59,054,301 shares of common stock issued and outstanding. Therefore, at least 29,527,151 shares need to be present at the Annual Meeting.

### **What matters will be voted on at the meeting?**

We are asking you to vote on: (i) the election of three directors to serve three-year terms expiring in 2022; (ii) the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending May 30, 2020; and (iii) a non-binding advisory proposal on the compensation of our Named Executive Officers, otherwise known as a “say-on-pay” proposal. We describe these matters more fully in this Proxy Statement.

### **How many votes are needed for each proposal?**

A majority of votes cast at the meeting will approve each matter that arises at the Annual Meeting. Under the Company’s majority vote standard for the election of directors (included in the Company’s Bylaws and described in more detail below), in order to be elected, a nominee must receive a greater number of votes cast “for” his or her election than the number of votes “withheld” with respect to that director’s election. Because the “say-on-pay” vote is advisory, it will not be binding upon the Board of Directors or the Executive Compensation Committee of the Board.

**What happens if a nominee is unable to stand for re-election?**

The Board may, by resolution, provide for a lesser number of directors or designate a substitute nominee. In the latter case, shares represented by proxies may be voted for a substitute nominee. Proxies cannot be voted for more than three nominees. We have no reason to believe any nominee will be unable to stand for re-election.

**What alternatives do I have in voting on each of the proposals?**

Except with respect to the election of directors, you may vote “for,” “against,” or “abstain” on each proposal. In the election of directors, you may vote “for” or “withhold authority to vote for” each nominee.

**How can I participate in the Virtual Annual Meeting?**

You may attend and participate in the Annual Meeting by logging onto the Internet at [www.virtualshareholdermeeting.com/MLHR19](http://www.virtualshareholdermeeting.com/MLHR19). At this site, you will be able to vote electronically and submit questions during the meeting. You will need the 16-digit control number that you received with your proxy card or Notice of Internet Availability to enter and attend the meeting.

**How can I ask questions during the Virtual Annual Meeting?**

If you wish to submit a question, shareholders may do so by logging-in to the virtual meeting platform at [www.virtualshareholdermeeting.com/MLHR19](http://www.virtualshareholdermeeting.com/MLHR19), entering your 16-digit control number, then typing your question into the “Ask a Question” field, and then click “Submit”. Questions pertinent to meeting matters will be answered during the meeting, subject to time constraints. Inappropriate questions including those not pertinent to the meeting matters, relating to non-public material information, relating to pending litigation, or not otherwise suitable for the conduct of the Annual Meeting will not be addressed. Any questions pertinent to meeting matters, including those that cannot be answered during the meeting due to time constraints, will be posted online and answered at <http://investors.hermanmiller.com/>. The questions and answers, including those that cannot be answered during the meeting due to time constraints, will be available as soon as practical after the meeting at our Investor Relations website.

**How can I get help with technical support during the virtual meeting?**

We will have technicians available to assist you with any technical difficulties you may have accessing the virtual meeting. For any technical assistance needed while participating in the Annual Meeting of Shareholders please contact our virtual meeting service provider at 855-449-0991 (US) or 720-378-5962 (International).

**Where do I find the voting results of the meeting?**

If available, we will announce voting results at the Annual Meeting. We will also disclose the voting results on a Current Report on Form 8-K that we will file with the SEC within four business days after the meeting.

**Important Notice Regarding the Availability of Proxy Materials for the Shareholders Meeting to be Held on October 14, 2019**

This Proxy Statement along with our Annual Report are available at <https://www.hermanmiller.com/investors/annual-reports/>. You may obtain a copy of the Company’s Annual Report on Form 10-K for the fiscal year ended June 1, 2019, as filed with the SEC, without charge upon written request to the Corporate Secretary of the Company, Herman Miller, Inc., 855 East Main Street, P.O. Box 302, Zeeland, Michigan 49464-0302.



## Financial Highlights from Fiscal 2019

### **Company Performance**

Net sales increased in fiscal year 2019 to \$2,567.2 million, an increase of 7.8% from the prior fiscal year and a record level of sales for the Company. On an organic basis, which adjusts for changes in foreign currency translation rates, net sales increased by 7.1%<sup>(1)</sup> compared to last fiscal year. Each of our business segments delivered sales growth over last year, led by double digit organic growth in the International Contract and Retail segments during the year.

Excluding approximately 60 basis points of impact from adopting new revenue recognition rules at the start of our current fiscal year, gross margin increased ten basis points over the prior year. Manufacturing production leverage from higher shipments volumes and benefits from our profit improvement initiatives helped offset the challenge of inflationary pressures on key commodities and the impact of trade tariffs throughout most of the year. Operating expenses were also well-controlled during the year. These factors combined to deliver operating margin expansion over the prior year of 40 basis points on a reported basis and 50<sup>(1)</sup> basis points on an adjusted basis. Consolidated diluted earnings per share of \$2.70 and adjusted diluted earnings per share of \$2.97<sup>(1)</sup> increased meaningfully compared to prior year diluted earnings per share of \$2.12 and adjusted diluted earnings per share of \$2.30<sup>(1)</sup>, respectively. Operating cash flow generation of \$216 million for the year increased by \$50 million over the prior year and enabled the Company to fund capital expenditures supporting the business, repurchase \$48 million of company shares and, subsequent to the end of the fiscal year, announce a 6% increase in the quarterly dividend to \$0.21 per share, the highest quarterly rate in Herman Miller's history.

Behind a supportive industry environment and continued traction from our strategic initiatives and new product launches, the North America Contract business segment delivered reported sales growth of 6.1% and organic growth of 4.8%<sup>(1)</sup> compared to the prior fiscal year. We made meaningful investments in design and innovation during the year, launching a full slate of new products and services aimed at delivering high-performing work spaces that meet our customers' evolving needs.

The International Contract segment recorded an increase in net sales of 13.3% for the year. The improvement in net sales reflected growth across each of our geographic regions of EMEA, Asia-Pacific and Latin America. This sales growth leveraged a powerful combination of broad and expanding dealer distribution, new products tuned to the needs of the market and a talented sales organization.

Our Retail segment reported another year of strong momentum with net sales growth of 8.9% on a reported basis and up 10.5%<sup>(1)</sup> over last year on an organic basis. Growth was delivered from multiple channels this year, including eight new Design Within Reach studios, contract channel growth, eCommerce and the launch of the HAY brand in North America. While real estate expansion and other investments to support long-term growth in the Retail business have limited near-term profitability, these investments are driving top-line momentum and positioning us for operating margin expansion as we scale the Retail segment.

<sup>(1)</sup> Non-GAAP measurements; see accompanying reconciliations and explanations on pg. 48.

## Proposal #1 - Election of Directors

The Board of Directors of the company has nominated Lisa A. Kro, Michael C. Smith, and Michael A. Volkema for election as directors. All nominees would serve until the 2022 annual meeting. Ms. Kro and Mr. Volkema are now serving as a director and have previously been elected as a director by our shareholders. Mr. Smith was appointed to the Board of Directors on January 16, 2019. The Board approved each of the nominees following the recommendation of our Nominating and Governance Committee.

We include more information about the nominees and the directors who will continue in office following the Annual Meeting below. Unless otherwise directed by a shareholder's proxy, the persons named as proxy holders in the accompanying proxy will vote for the nominees named above. If any of the nominees becomes unavailable, which we do not anticipate, then the Board of Directors, at its discretion, may designate substitute nominees, in which event your proxy will be voted for such substituted nominees unless you have withheld authority to vote for directors. Shares cannot be voted for a greater number of people than the number of nominees named.

Our Bylaws provide that each director will be elected by the majority of the votes cast with respect to that director's election at any meeting of shareholders for the election of directors, other than a contested election. A majority of the votes cast means that the number of votes cast "for" a director's election exceeds the number of votes "withheld" with respect to that director's election. In a contested election, each director will be elected by a plurality of the votes cast with respect to that director's election at the meeting. An election is considered contested if the number of nominees exceeds the number of directors to be elected at that meeting.

In an uncontested election of directors, any nominee for director who is already serving as a director and receives a greater number of votes "withheld" from his or her election than votes "for" his or her election (a "Majority Against Vote") is required to promptly tender his or her resignation. Abstentions and broker non-votes are not counted as votes cast either "for" or "withheld" with respect to that director's election. The Nominating and Governance Committee of the Board will then promptly consider the resignation submitted by a director receiving a Majority Against Vote, and that Committee will recommend to the Board whether to accept the tendered resignation or reject it.

The Board will act on the Committee's recommendation no later than 90 days following the date of the shareholders' meeting at which the election occurred. In considering the Committee's recommendation, the Board will consider the factors considered by the Committee and such additional information and factors the Board believes to be relevant. We will promptly publicly disclose the Board's decision whether to accept the resignation as tendered, including a full explanation of the process by which the decision was reached and, if applicable, the reasons for rejecting the tendered resignation. Any director who tenders a resignation pursuant to those procedures may not participate in the Committee recommendation or the Board consideration regarding whether to accept the tendered resignation.

The Board of Directors currently consists of ten directors, nine of whom are independent. The maximum number of directors for the Board is thirteen. Our Bylaws require that directors be divided into three classes, each class to be as nearly equal in number as possible. Members of each class hold office until the third succeeding annual meeting following their election and until their successors are duly elected and qualified or until their removal or resignation.

**The Board of Directors recommends a vote FOR the election of each person nominated by the Board.**

## Information about the Nominees and Directors

Certain information with respect to the nominees for election at Annual Meeting, as well as each of the other Directors, is set forth below and on the following pages, including their names, ages, a brief description of their recent business experience, including present occupations and employment, certain directorships that each person held during the last five years, and the year in which each person became a Director of the company. We also include additional information below and on the following pages about each Director describing some of the specific experiences, qualifications, attributes or skills that each Director possesses which the Board believes has prepared them to be effective Directors.

Nominees for Election as Directors for Term to Expire in 2022			
Name and Age	Year First Became a Director	Principal Occupation(s) During Past 5 years	Other Directorships of Public Companies held during Past 5 years
Lisa A. Kro, 54	2012	<b>Chief Financial and Administrative Officer</b> Ryan Companies since 2019 <b>Co-Founder, Managing Director</b> Mill City Capital L.P. 2010 to 2018	None

Ms. Kro is the Chief Financial and Administrative Officer at Ryan Companies, a national real estate services company. From 2010-2018 she co-founded and was Managing Director at the private equity firm Mill City Capital. From 2004 to 2010, Ms. Kro was the Chief Financial Officer and a Managing Director of Goldner Hawn Johnson & Morrison, also a private equity firm. Prior to joining Goldner Hawn, she was a partner at KPMG LLP, an international public accounting firm.

Ms. Kro's service in auditing as well as her experience in the finance and capital environments enable her to contribute to a number of financial and strategic areas of the company. Her experience on other boards, including previous service as the financial expert on the audit committee of another publicly-traded company, contributes to the oversight of the company's financial accounting controls and reporting.

Michael C. Smith, 49	2019	<b>President and Chief Operating Officer</b> , Stitch Fix, Inc. since 2012	None
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Mr. Smith is the President and Chief Operating Officer of Stitch Fix, an online personal styling platform with more than 2.9 million clients. Mr. Smith has been an innovative leader in the digital and fast-paced online consumer sectors for more than 15 years, with leadership positions in ecommerce, operations, customer experience, and finance. He joined Stitch Fix in 2012 and was instrumental in helping to scale the business from a small start-up to the innovative public company it is today. Mr. Smith leads all operations for the company, including the Styling, Merchandising, and Customer Experience Teams.

Mr. Smith's expertise and passion for building smart, efficient, and customer-centric online experiences will help us improve our customer experience initiatives and growth of our global businesses.

Michael A. Volkema, 63	1995	<b>Chairman of the Board</b> , Herman Miller, Inc. since 2000	Wolverine Worldwide, Inc.
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Mr. Volkema has been Chairman of the Board of Directors of Herman Miller, Inc. since 2000, serving as non-executive Chairman since 2004. He also served as CEO and President of the company from 1995 to 2004. Mr. Volkema has more than thirty years of experience as a senior executive in the home and office furnishings industry. This experience includes corporate leadership, branded marketing, international operations, and public company finance and accounting through audit committee service.

Mr. Volkema is a key contributor to the Board based upon his knowledge of the company's history and culture, operational experience, board governance knowledge, service on boards of other publicly held companies and industry experience.

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**Directors Whose Terms Expire in 2020**

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Name and Age	Year First Became a Director	Principal Occupation(s) During Past 5 years	Other Directorships of Public Companies held during Past 5 years
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Mary Vermeer Andringa, 69	1999	<p style="text-align: center;"><b>Chair of the Board</b> Vermeer Corporation since 2015</p> <p style="text-align: center;"><b>Chief Executive Officer and Chair of the Board</b> Vermeer Corporation from 2014 to 2015</p> <p style="text-align: center;"><b>President and Chief Executive Officer</b> Vermeer Corporation from 2003 to 2014</p>	None
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Since 1989, Ms. Andringa has been an executive officer of Vermeer Corporation, a leading manufacturer of agricultural, construction, environmental and industrial equipment located in Pella, Iowa. She served as President and Chief Executive Officer of Vermeer from 2003 to 2014. At that time, she became Chief Executive Officer and Chair of the Board. She transitioned exclusively to Chair of the Board in 2015. Ms. Andringa's tenure with Vermeer has spanned the gamut of functional expertise from marketing to international sales and acquisitions. With over thirty years of manufacturing experience, Ms. Andringa is past Chair of the National Association of Manufacturers which represents over 14,000 U.S.-based manufacturing entities. Ms. Andringa served the last four years as the co-chair for the B20 Task Force for Small and Medium Enterprises. The B20 is a group of business leaders from the G20 countries who develop and advise the political leaders for the G20 on proposals to improve global growth.

Ms. Andringa's experience as a chief executive officer coupled with her focused efforts on lean manufacturing and continuous improvement initiatives, as well as her involvement in international product sales and distribution, provide an important resource to management and the Board of Directors.

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J. Barry Griswell, 70	2004	<p style="text-align: center;"><b>Retired President and CEO</b>, Community Foundation of Greater Des Moines 2008 to 2013</p>	<p style="text-align: center;">Voya Financial Inc. Och-Ziff Capital Management Group</p>
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Mr. Griswell is the retired chairman and chief executive officer of the Principal Financial Group and Principal Life, a global financial services provider which offers a wide range of insurance and financial products and services. With more than thirty years of financial services experience, Mr. Griswell was the president and CEO of MetLife Marketing Corporation prior to joining The Principal. He is a former director and non-executive chairman of the board of the Principal Financial Group. Mr. Griswell is a director of Voya Financial, where he serves on the Executive Committee and as chair of the Risk, Investment and Finance Committee.

Mr. Griswell's financial expertise, governance experience and service as an executive of a publicly-traded corporation make him a key contributor to the Board of Directors.

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Andrea R. Owen, 54	2018	<p style="text-align: center;"><b>President and Chief Executive Officer</b> Herman Miller, Inc. since 2018</p> <p style="text-align: center;"><b>Global President</b>, Banana Republic 2014 to 2017</p> <p style="text-align: center;"><b>Executive Vice President</b> GAP Global Outlet 2010 to 2014</p>	Taylor Morrison Home Corporation
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Ms. Owen serves as the Company's President and Chief Executive Officer, effective as of August 22, 2018. Prior to joining Herman Miller, she served a 25-year career at Gap Inc., where she most recently acted as Global President of Banana Republic, leading 11,000 employees in over 600 stores across 27 countries.

Ms. Owen is the only member of Company management on the Board of Directors. She has developed a diversified skill set that aligns with the strategic direction of Herman Miller today and ranges from digital and omni-channel transformation to design, development and supply chain management, making her an important contributor to the Board.

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**Directors Whose Terms Expire in 2021**

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Name and Age	Year First Became a Director	Principal Occupation(s) During Past 5 years	Other Directorships of Public Companies held during Past 5 years
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David A. Brandon, 67	2011	<b>Chairman and CEO</b> , Toys "R" Us, Inc. 2015 to 2018  <b>Director of Intercollegiate Athletics</b> , University of Michigan 2010 to 2014	Domino's Pizza, Inc. DTE Energy Company
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Mr. Brandon is the former Chairman and Chief Executive Officer of Toys "R" Us, Inc., a retailer of toys and juvenile products. Mr. Brandon joined Toys "R" Us in 2015 and officially left the company in May 2018. On September 18, 2017, Toys "R" Us filed a voluntary petition for relief under the United States Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Virginia (Richmond Division). Mr. Brandon served as the Director of Intercollegiate Athletics at the University of Michigan from 2010 to 2014. Prior to that, he served as Chairman and Chief Executive Officer of Domino's Pizza, Inc., an international pizza delivery company operating over 9,000 stores in over 60 countries. Mr. Brandon was also President and Chief Executive Officer of Valassis, Inc. from 1989 to 1998 and Chairman of its Board of Directors from 1997 to 1998.

Mr. Brandon's years of experience as a chief executive officer of several publicly-traded companies, his experience in global brand management and his for-profit and non-profit board service bring a unique perspective to the Board of Directors.

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Douglas D. French, 65	2002	<b>Managing Director</b> , Santé Health Ventures since 2007	None
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Mr. French has served as the founding partner of Santé Health Ventures, an early-stage healthcare venture fund, since 2007. Prior to joining Santé Health Ventures, he served as the President and Chief Executive Officer of Ascension Health, the largest not-for-profit health system in the U.S. Mr. French has also served as CEO for St. Mary's Medical Center and St. Vincent Health System, both of Midwest Indiana. He has more than three decades of health management experience including serving as a director for numerous public and private companies.

Mr. French's governance experience, as well as his leadership roles and expertise in the health management industry, provides a valuable resource to management.

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John R. Hoke III, 54	2005	<b>Chief Design Officer</b> , Nike, Inc. since 2017  <b>Vice President</b> , Nike Global Design 2010 to 2017	None
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Since joining Nike, Inc., a marketer of athletic footwear, apparel, equipment, accessories and services, in 1993, Mr. Hoke has led the communication of Nike's culture of creativity internally and externally. He is currently the Chief Design Officer of Nike, Inc. having previously served as Vice President of Global Design, inspiring and overseeing an international team of designers. Mr. Hoke also serves as a director to several not-for-profit organizations relating to art and design.

Mr. Hoke's design expertise, both domestically and internationally, including his leadership role in a major, global enterprise, brings additional, insightful perspective to our Board of directors.

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Heidi J. Manheimer, 56	2014	<b>Executive Chairman</b> , Surratt Cosmetics LLC since December 2017  <b>Independent Consultant</b> 2015 to 2017 <b>Chief Executive Officer</b> , Shiseido Cosmetics America from 2006 to 2015	None
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Ms. Manheimer is the Executive Chairman of Surratt Cosmetics LLC, a customizable beauty products and cosmetics company. Ms. Manheimer served as the Chief Executive Officer of Shiseido Cosmetics America, a global leader in skincare and cosmetics, from 2006 to 2015, as President of U.S. Operations from 2002 to 2006 and as Executive Vice President and General Manager from 2000 to 2002. Prior to that she spent seven years at Barney's New York and seven years at Bloomingdales in the beauty care divisions, rising to senior leadership positions within each company. Ms. Manheimer currently sits on the Board of Directors of Burton Snowboards having been appointed in 2006. For many years, she has served on nonprofit and trade association boards, and she was elected Chairwoman of the Cosmetic Executive Women Foundation in 2014.

Ms. Manheimer's extensive experience as a senior executive in the retail industry, experience with both e-commerce and international business practices and service as a board member for both profit and nonprofit businesses provide a valuable resource to management and the Board of Directors.

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The Nominating and Governance Committee has not received any nominations from any of our shareholders in connection with our 2019 Annual Meeting.

## Corporate Governance and Board Matters

### Board Governance Guidelines

Our Board of Directors is committed to sound and effective corporate governance practices, strong oversight of corporate risk management, ethical conduct and compensation. These practices reflect the Board's long-standing philosophy that a proper structure, appropriate policies and procedures, and reflective cultural factors provide the cornerstone to good governance. The Board documented those practices by adopting our Board Governance Guidelines ("Guidelines"). These Guidelines address director responsibilities, the composition of the Board, required Board meetings and materials, Board committee composition and responsibilities, and other corporate governance matters. Under our Guidelines, a majority of the members of our Board must qualify as independent under the listing standards of the NASDAQ National Markets. Our Guidelines also require the Board to have, among other committees, an Audit Committee, an Executive Compensation Committee, and a Nominating and Governance Committee, and that each member of those Committees qualifies as an independent director under the NASDAQ listing standards. Our Guidelines, as well as the charters of each of the foregoing Committees, are available for review on our website at [www.hermanmiller.com/governance](http://www.hermanmiller.com/governance).

### Leadership Structure

The Guidelines, with respect to the position of Chief Executive Officer ("CEO") and Chairperson, state that "the Board believes the roles of CEO and Chairperson should normally be separated. If the positions are combined, the Board will closely monitor the performance and working relationship between the CEO/Chairperson and the Board and will establish a Lead Director to act as a liaison between directors and the CEO/Chairperson and who chairs meetings of the independent directors." Consistent with our Guidelines, the roles of CEO and Chairperson are currently separate. Mr. Volkema currently serves as Chairman of the Board. As Mr. Volkema is not an employee of the Company, he serves as a non-executive Chairman.

### The Board's Role in Risk Oversight

The Company's management annually engages in an enterprise risk management process, the key output of which is a series of risk matrices intended to identify and categorize strategic risks. The matrices also identify (1) those members of senior management who are responsible for monitoring each major risk, and (2) whether that risk is reviewed by the Board or a committee of the Board. The development of the matrices is facilitated by the Company's Business Risk Group, through discussions with executive and senior management. Management and the Business Risk Group annually review and discuss the risk assessment process and results with the Audit Committee and, if applicable, recommend what risks are being adequately addressed, directly or indirectly, on a regular basis and what risks should be further discussed with the full Board or other committees and the appropriate form and timing of such discussions. The Business Risk Group is the internal audit group of the Company.

During the past fiscal year, the Business Risk Group reviewed the Company's compensation policies and practices to determine if those policies or practices are reasonably likely to have a material adverse impact on the Company. The Business Risk Group conducted its review in late 2018 and provided a report to the Audit Committee in January 2019. In conducting its review of the compensation plans, the Committee considered both the structure of the compensation plans and the presence of risk mitigating features such as caps, multi-year earning requirements, vesting provisions and "clawbacks." Based on the evaluation, the Committee concurs with management's determination that the Company's compensation policies and practices are not reasonably likely to create a material adverse impact on the Company.

Under the Guidelines, the Board of Directors is responsible for evaluating CEO performance, monitoring succession planning, reviewing the Company's major financial objectives, evaluating whether the business is being properly managed and overseeing the processes for maintaining the integrity of the Company with respect to its financial statements, public disclosures and compliance with laws. The Board has delegated the primary oversight for managing the risk with respect to some of these to various board committees as described in the committee charters.

### Code of Conduct

Our Board has adopted a Code of Conduct that applies to all our employees, officers, and directors. This code also serves as the code of ethics for our CEO and senior financial officers. This code is posted on our website at <http://www.hermanmiller.com/legal/corporate-code-of-conduct.html>. Any changes to or waivers of the code must be approved by the Board of Directors and will be disclosed on the Company's website. The Code of Conduct was last materially modified in December 2015. The Code of Conduct is reviewed annually, there were no modifications to or waivers of the code in fiscal 2019. The Code of Conduct meets the requirements of the NASDAQ listing standards.

### Determination of Independence of Board Members

As required by our Guidelines, our Board has determined that each of our directors, other than Ms. Owen, qualifies as an "Independent Director," as such term is defined in the NASDAQ listing standards, and that none of those independent directors has a material relationship with the Company. The Board's determination was made as a result of its review of completed individual questionnaires addressing the nature and extent of each member's relationship with the company and taking into consideration the definition of "Independent Director" under the NASDAQ rules.

## **Corporate Governance and Board Matters** *(continued)*

Our Board also determined that each member of the Audit Committee and Executive Compensation Committee meets the independence requirements applicable to those committees as prescribed by the NASDAQ listing standards and, as to the Audit Committee, the applicable rules of the SEC.

### **Meeting Attendance**

Each of our directors is expected to attend all meetings of the Board and applicable committee meetings, and Directors are encouraged to join the webcast for the Annual Meeting. All of our then current directors did so for our 2018 Annual Shareholders Meeting. During fiscal 2019, the Board held four meetings; each director attended at least 75 percent of the aggregate number of meetings of our Board and Board Committees on which they served. Consistent with the requirements of our Guidelines, the independent members of our Board met in executive sessions, without the presence of management, at the conclusion of each regularly scheduled Board meeting.

### **Communications with the Board**

Shareholders and other parties interested in communicating directly with one or more of our directors may do so by writing to us, c/o Corporate Secretary, 855 East Main Avenue, PO Box 302, Zeeland, Michigan 49464-0302. The Corporate Secretary will forward all relevant correspondence to the director or directors to whom the communication is directed.

### **Director Nominations**

Our Bylaws contain certain procedural requirements applicable to shareholder nominations of directors. Shareholders may nominate a person to serve as a director if they provide written notice to us not earlier than the close of business on the 120th day and not later than the close of business on the 90th day prior to the first anniversary of the preceding year's Annual Meeting of Shareholders and, with respect to any special meeting of shareholders, not later than the close of business on the 10th day following the date on which the meeting is first publicly announced or, if there is no announcement, the 10th day following the date on which the notice of that meeting was first sent to our shareholders. The notice must include (1) the name and address of the shareholder providing notice and of the person or persons nominated, including information on the securities of the company held by those individuals, including any derivative securities, the details of which are set forth in our Bylaws, (2) a representation that the shareholder is a current record holder and will continue to hold those shares through the date of the meeting and intends to attend the meeting in person or by proxy, (3) for each proposed nominee, (a) all information relating to that person that would be required to be disclosed in a Proxy Statement required to be made in connection with solicitations or proxies for election of directors in a contested election pursuant to Section 14 of the Securities and Exchange Act of 1934 (including that person's written consent to be named in the Proxy Statement as a nominee and to serve as a director if elected) and (b) a description of all direct and indirect compensation and other material monetary arrangements existing during the past three years, as well as any other material relationships between or among the shareholders (and beneficial owner, if any) and their respective affiliates and associates and the proposed nominee and his or her respective affiliates and associates, including all information required to be disclosed pursuant to Rule 404 under Regulation S-K, and (4) the completed and signed questionnaire from each nominee with respect to the background and qualification of such person and the background of any other person or entity on whose behalf the nomination is being made.

Our Nominating and Governance Committee is responsible for reviewing the qualifications and independence of the members of the Board. To meet the needs of the company in a rapidly changing environment, the Guidelines explain that the company requires a high-performance board of directors whose members subscribe to our values and meet the specific resource needs of the business. To that end, the Nominating and Governance Committee considers a number of factors it deems appropriate when considering candidates for the Board; such factors may include experience and knowledge of the company's history and culture, technical experience and backgrounds such as manufacturing, design, marketing, technology, finance, management structure and philosophy, experience as a senior executive of a public company, and diversity. The Nominating and Governance Committee may also consider experience in a variety of industries in annually assessing and reviewing the current slate of directors and potential director candidates as the need arises. The Nominating and Governance Committee is responsible for assessing the appropriate skills and characteristics required of Board members. These factors, and others as considered useful by the Nominating and Governance Committee or the Board, are reviewed in the context of an assessment of the perceived needs of the Board at a particular point in time.

A shareholder may also make a recommendation to the Nominating and Governance Committee regarding any individual that the shareholder desires the Committee to consider for possible nomination as a candidate for election to the Board. The Board believes that all candidates, including those that shareholders recommend, should be evaluated in the same manner.

Under our Bylaws and Governance Guidelines, no person may be elected as a director after he or she attains age 72, and a director who attains age 72 while in office is required to tender his or her written resignation, which resignation shall be effective as of (or no later than) the annual meeting of shareholders at or immediately after such person attains age 72.

## **Board Committees**

Our Board has four standing Committees. Committee responsibilities are detailed in written charters. These charters are available on our website at [www.hermanmiller.com/charters](http://www.hermanmiller.com/charters). The Committees are as follows:

### **Nominating and Governance Committee**

We have a Nominating and Governance Committee comprised of Mary Vermeer Andringa (chair), John R. Hoke III, and Michael Volkema. The Nominating and Governance Committee develops and recommends to the Board governance standards and policies and board compensation including that of the Chairman of the Board. In addition, the Committee identifies and recommends to the Board candidates for election to the Board. The Committee met five times during the last fiscal year.

### **Audit Committee**

We have an Audit Committee comprised of Lisa A. Kro (chair), J. Barry Griswell, and Michael C. Smith. The Board has determined that Ms. Kro is qualified as an "Audit Committee financial expert" within the meaning of the applicable SEC regulations. This Committee, composed entirely of independent directors under the applicable listing standards of the NASDAQ listing requirements, as well as the requirements of the Sarbanes-Oxley Act of 2002, is responsible for overseeing management's reporting practices, internal controls, and risk management on behalf of the Board of Directors, including overseeing and regularly evaluating (quarterly) the company's cybersecurity risks, which is regularly reported to and discussed among members of the Board of Directors. The committee is also responsible for appointing, approving the compensation of, and overseeing our independent registered public accounting firm. The Audit Committee met nine times during the last fiscal year.

### **Executive Compensation Committee**

We have an Executive Compensation Committee comprised of David A. Brandon (chair), Douglas D. French and Heidi J. Manheimer. The Executive Compensation Committee recommends to the Board the annual executive incentive plan and the annual compensation of our Chief Executive Officer and President, approves the annual compensation and executive incentive plan for the other executive officers, approves the grants of employee equity awards, and acts as the administrative committee for our equity-based compensation plans. A description of the committee's processes and procedures for the consideration and determination of executive and director compensation is set forth under the caption "Compensation Discussion and Analysis - Executive Summary" below in this Proxy Statement. The committee met four times during the last fiscal year.

### **Executive Committee**

We have an Executive Committee comprised of Michael A. Volkema (chair), Mary Vermeer Andringa, David A. Brandon and Lisa A. Kro. The Executive Committee acts from time to time on behalf of the Board in managing our business and affairs (except as limited by law or our Bylaws) and is delegated certain assignments and functions by the Board of Directors. The committee met five times during the last fiscal year.

### **Executive Compensation Committee Interlocks and Insider Participation**

No member of the Executive Compensation Committee is or has been an officer or employee of the company or had any relationship that is required to be disclosed as a transaction with a related party except as noted under Certain Relationships and Related Party Transactions. In addition, no current executive officer of the company has ever served as a member of the Board of Directors or compensation committee of any other entity that has or has had one or more executive officers serving as a member of our Board of Directors or Executive Compensation Committee.



## Proposal #2 - Ratification of Audit Committee's selection of Independent Registered Public Accounting Firm

The Audit Committee of the Board completed a competitive process for purposes of selecting an audit firm to serve as the company's independent registered public accounting firm for the fiscal year ending May 30, 2020 ("Fiscal 2020"). As of May 6, 2019, the Audit Committee approved the engagement of KPMG LLP ("KPMG") as the company's independent registered public accounting firm for purposes of auditing the company's financial statements effective June 2, 2019 for the 2020 fiscal year. This selection resulted in the dismissal of Ernst & Young LLP ("E&Y"), which had served in that role, effective upon the filing of the company's Annual Report on Form 10-K for the company's fiscal year ended June 1, 2019.

The audit reports of E&Y on the consolidated financial statements of the company as of and for the fiscal years ended June 1, 2019, and June 2, 2018, did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles. Representatives of E&Y are expected to be in attendance at our Annual Meeting of Shareholders to respond to appropriate questions and to make such statements as they may desire.

During the company's two most recent fiscal years ended June 1, 2019, and June 2, 2018, and the subsequent interim period through July 30, 2019, the effective date of E&Y's dismissal (the "Relevant Period"), (i) there were no disagreements (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K) between the company and E&Y on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures that, if not resolved to the satisfaction of E&Y, would have caused E&Y to make reference to the subject matter of the disagreement in its report, and (ii) there were no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

During the Relevant Period, neither the company nor anyone acting on its behalf consulted KPMG regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the company's financial statements, and neither a written report nor oral advice was provided to the company that KPMG concluded was an important factor considered by the company in reaching a decision as to any accounting, auditing, or financial reporting issue, or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K) or a reportable event (as defined in Item 304(a)(1)(v) of Regulation S-K).

We are asking our shareholders to ratify the selection of KPMG as our independent registered public accounting firm. Although ratification is not legally required, the Board is submitting the selection of KPMG to our shareholders for ratification as a matter of good corporate governance.

The affirmative vote of the holders of the majority of the shares represented in person or by proxy and entitled to vote on this item will be required for approval. Abstentions and broker non-votes will not be treated as votes cast on this matter. Unless otherwise instructed by you, brokers, banks, and other street-named holders will have the discretionary authority to vote your shares on this matter.

If our shareholders do not ratify the appointment, the appointment will be reconsidered by the Audit Committee and the Board. Even if the selection is ratified, the Audit Committee, at its discretion, may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interest of our company and our shareholders.

**The Board of Directors recommends a vote FOR this proposal to ratify the appointment of KPMG as our company's independent registered public accounting firm for Fiscal 2020.**

### Disclosure of Fees Paid to Independent Auditors

Aggregate fees billed to us for the fiscal years ended June 2, 2018 and June 1, 2019, by our independent registered public accounting firm, Ernst & Young LLP were as follows:

Fiscal Year Ended	June 2, 2018	June 1, 2019
Audit Fees <sup>(1)</sup>	\$ 2,153,500	\$ 2,211,400
Audit Related Fees	—	—
Tax Fees <sup>(2)</sup>	445,000	115,000
Total	\$ 2,598,500	\$ 2,326,400

(1) Includes fees billed for the audit of and accounting consultations related to our consolidated financial statements included in our Annual Report on Form 10-K, including the associated audit of our internal controls, the review of our financial statements included in our quarterly reports on Form 10-Q, and services in connection with statutory and regulatory filings.

(2) Includes fees billed for tax compliance, tax advice, and tax planning.

Our Audit Committee has adopted a policy for pre-approving services performed by our independent registered accounting firm and other firms. This policy requires the Committee's pre-approval of all services that may be provided by our independent registered public accounting firm and certain audit services provided by other firms. The policy authorizes the committee to delegate to one or more of its members pre-approval authority with respect to permitted services. All services provided by E&Y under the captions "Audit Fees," "Audit Related Fees," and "Tax Fees" were approved by the Audit Committee under this policy.

## Report of the Audit Committee

The Audit Committee's purpose is to oversee the accounting and financial reporting processes of the company, the audits of the company's financial statements and management's assessment of the company's internal controls, the qualifications of the public accounting firm engaged as the company's independent registered public accounting firm, and the performance of the company's internal auditors and independent registered public accounting firm. The Committee's function is more fully described in its charter, which the Board has adopted and is available on the company's web site at [http://www.hermanmiller.com/content/dam/hermanmiller/documents/investors/audit\\_committee\\_charter.pdf](http://www.hermanmiller.com/content/dam/hermanmiller/documents/investors/audit_committee_charter.pdf). The Committee reviews the charter on an annual basis. The Board annually reviews the NASDAQ listing standards definition of independence for audit committee members and has determined that each member of the Committee meets that standard.

Management is responsible for the preparation, presentation, and integrity of the company's financial statements, accounting and financial reporting principles, internal controls, and procedures designed to ensure compliance with accounting standards, applicable laws, and regulations. The company's independent registered public accounting firm during fiscal 2019, Ernst & Young LLP, held responsibility for performing an independent audit of the consolidated financial statements and expressing an opinion on the conformity of those financial statements with U.S. generally accepted accounting principles. Ernst & Young LLP was also responsible for auditing and providing an opinion on the effectiveness of the company's internal control over financial reporting.

We have reviewed and discussed, with management and Ernst & Young LLP, the Company's audited financial statements for the year ended June 1, 2019, management's assessment of the effectiveness of the company's internal controls over financial reporting, and Ernst & Young LLP's evaluation of the company's internal controls over financial reporting.

We have discussed with Ernst & Young LLP the results of the independent auditors' examinations and the judgments of the independent auditors concerning the quality, as well as the acceptability, of the company's accounting principles and such other matters that we are required to discuss with the independent auditors under applicable rules, regulations or generally accepted auditing standards, including the matters required to be discussed by applicable rules of the Public Company Accounting Oversight Board ("PCAOB"). We have also received and reviewed the written disclosures and the letter from Ernst & Young LLP per the applicable requirements of the PCAOB regarding Ernst and Young LLP's communications with the Audit Committee around independence and we have discussed with Ernst & Young LLP their independence including a consideration of the compatibility of non-audit services with their independence.

Based on the reviews and discussions referred to above, we recommended to the Board of Directors that the financial statements referred to above be included in the company's Form 10-K Report for the year ended June 1, 2019. We selected KPMG, LLP as the independent auditor for fiscal year 2020. The Board is recommending that shareholders ratify that selection at the annual meeting.

*Lisa A. Kro (Chair)*

*J. Barry Griswell*

*Michael C. Smith*

### Proposal #3 - Proposal to Approve, on an Advisory Basis, the Compensation Paid to the Company's Named Executive Officers

Consistent with our Board's recommendation, as approved by our shareholders and as required pursuant to Section 14A of the Securities Exchange Act, we allow our shareholders the opportunity to vote, on an advisory and annual basis, on the compensation of our named executive officers ("Say on Pay"). Thus, you are asked to vote upon the following resolution at this year's annual meeting.

The Executive Compensation Committee ("Committee") has considered the results of the 2018 advisory vote on executive compensation in which more than 96% of the votes cast were voted for the approval, on an advisory basis, of the compensation of our named executive officers as described in the 2018 Proxy Statement. Consistent with those voting results, the Committee believes that the total compensation paid to the Chief Executive Officer and the other named executive officers, as disclosed in the Compensation Discussion and Analysis, is fair and appropriate and should be approved by our shareholders. The compensation of the named executive officers is designed to vary with the results of the business and to reward consistent improvement in the results delivered to shareholders. In fiscal year 2020, changes in the base compensation of each executive officer primarily reflect changes in the benchmarking data for the position. The change in the variable element of each executive's compensation reflects our financial and related performance relative to performance criteria approved by the Committee and Board. The Committee believes that the compensation to each named executive officer as disclosed in the Compensation Discussion and Analysis is appropriate in the light of the Company's and the officer's performance during the fiscal year. In addition, each of the elements of compensation at target has been benchmarked against comparable positions.

Shareholders are being asked to approve the following resolution at the Annual Meeting:

"RESOLVED, that the compensation paid to the company's named executive officers, as disclosed in the company's Proxy Statement for this annual meeting pursuant to the rules of the SEC, including the Compensation Discussion and Analysis, the compensation tables and narrative disclosure, is hereby APPROVED."

#### The Board of Directors recommends a vote FOR this proposal.

This vote is advisory and non-binding; however, the Board of Directors and Committee will review and consider the voting results in connection with future deliberations concerning our executive compensation program.

### Voting Securities and Principal Shareholders

On August 16, 2019, we had 59,054,301 shares of common stock issued and outstanding, par value \$.20 per share. Shareholders are entitled to one vote for each share of common stock registered in their names at the close of business on August 16, 2019, the record date for the Annual Meeting fixed by our Board of Directors. Votes cast at the meeting and submitted by proxy will be tabulated by Broadridge Financial Solutions, Inc. As of August 16, 2019, no person was known by management to be the beneficial owner of more than five percent of our common stock, except as follows.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
BlackRock, Inc. <sup>(1)</sup> 55 East 52nd Street New York, NY 10055	6,868,890	11.63
The Vanguard Group, Inc. <sup>(2)</sup> PO Box 2600 Valley Forge, PA 19482	5,623,073	9.52

(1) This information is based solely upon information as of June 30, 2019, contained in filings with the SEC on August 13, 2019 by BlackRock, Inc., including notice that it has, along with certain institutional investment managers for which it is the parent holding company, sole voting power as to 6,709,139 shares and sole dispositive power as to 6,868,890 shares.

(2) This information is based solely upon information as of June 30, 2019, contained in a filing with the SEC on August 14, 2019 by The Vanguard Group Inc., including notice that it has sole voting power as to 129,077 shares and sole dispositive power with respect to 5,492,746 shares, and shared voting power as to 8,106 shares and shared dispositive power with respect to 130,597 shares.

## Director and Executive Officer Information

### Security Ownership of Directors

The following table shows, as of August 16, 2019, the number of shares beneficially owned by each of the nominees and directors. Except as described in the notes following the table, the following persons have sole voting and dispositive power as to all their respective shares.

Name	Amount and Nature of Beneficial Ownership	Percent of Class <sup>(1)</sup>
Mary Vermeer Andringa	39,281	0.07
David A. Brandon <sup>(2)</sup>	16,809	0.03
Douglas D. French <sup>(2)</sup>	11,848	0.02
J. Barry Griswell	21,366	0.04
John R. Hoke III	30,924	0.05
Lisa A. Kro	21,608	0.04
Heidi J. Manheimer	16,217	0.03
Andrea R. Owen	see table below	
Michael C. Smith	3,279	0.01
Michael A. Volkema	75,000	0.13

(1) Percentages are calculated based upon shares outstanding plus shares that may be acquired under stock options exercisable within 60 days.

(2) Excludes 1,143 Shares held in Mr. Brandon's deferred compensation account and 3,842 shares held in Mr. French's deferred compensation account.

### Security Ownership of Management

The following table shows, as of August 16, 2019, the number of shares beneficially owned by each of the Named Executive Officers (NEOs) identified in the executive compensation tables of this Proxy Statement, and by all directors and executive officers as a group. Except as described in the notes following the table, the following persons have sole voting and dispositive power as to all their respective shares.

Name	Amount and Nature of Beneficial Ownership <sup>(1)</sup>	Percent of Class <sup>(2)</sup>
Andrea R. Owen	25,816	0.04
Brian C. Walker <sup>(3)</sup>	—	—
Jeffrey M. Stutz	82,164	0.14
Gregory J. Bylsma	38,263	0.06
Stephen C. Gane <sup>(4)</sup>	18,300	0.03
Jeremy J. Hocking	19,644	0.03
B. Ben Watson	65,410	0.11
All executive officers and directors as a group (23 persons) <sup>(5)</sup>	534,816	0.91

(1) Includes the following number of shares with respect to which the NEOs have the right to acquire beneficial ownership under stock options exercisable within 60 days: 25,816 shares for Ms. Owen; 58,579 shares for Mr. Stutz; 6,032 shares for Mr. Bylsma; no shares for Mr. Gane; and 39,461 shares for Mr. Watson. Includes the following number of deferred equity units; 9526 units for Mr. Gane and 3900 units for Mr. Stutz.

(2) Percentages are calculated based upon shares outstanding plus shares that may be acquired under stock options exercisable within 60 days.

(3) Mr. Walker served as our President and Chief Executive Officer until his retirement on August 21, 2018

(4) Mr. Gane's employment with the Company ended on May 31, 2019.

(5) Included in this number are 180,352 shares with respect to which executive officers and directors that have the right to acquire beneficial ownership under options exercisable within 60 days. Includes the following number of deferred equity units 14,611.

## Letter from the Executive Compensation Committee Chair

Dear Fellow Herman Miller Shareholder,

Fiscal 2019 reflected a year of positive financial performance driven by significant sales growth and impressive operating margin expansion, despite greater than expected pressure from commodity input costs and tariffs during the year. Looking ahead, Andi Owen and her leadership team developed a set of compelling strategic priorities to guide the organization forward that were shaped by industry trends and leverage core Herman Miller capabilities to create shareholder value.

We are proud of the successes we achieved financially and operationally during the year as detailed in the "Financial Highlights from Fiscal 2019" section of this proxy statement. Our executive compensation programs continue to exhibit strong alignment with financial performance:

- Executive annual incentive awards were paid at 77.61% of target, which reflected adjusted EBITDA performance (as described in the "Reconciliation of Non-GAAP Measures" on pg. 48) of \$290.8 million versus a target of \$300.9 million. These results reflected the pressures from higher than expected commodity and tariff-related costs during fiscal 2019.
- On a three-year basis, however, HMVA performance did not meet the threshold performance level and HMVA units granted for the 2017-2019 performance period did not result in an incentive payout.

We continue to evaluate our executive compensation programs to most effectively align long-term incentive compensation with long-term shareholder value. As a result, we have made the following plan design changes effective for fiscal 2020:

- Replace Adjusted EBITDA with Adjusted Operating Income as the primary financial metric in the annual incentive program. This change better aligns our performance targets with a sharp focus on capital allocation and operating margin expansion.
- Establish incentive payout targets for the leadership team based on consolidated corporate performance to better align them with our One Herman Miller strategic priority.
- Revise the mix of long-term incentive awards, as described in more detail later in this report, to weight performance results more fully towards our strategic focus on operating income and revenue growth, with actual payout modified based on our relative total shareholder return.

These changes complement the existing strong governance and best practices already underlying our executive compensation programs to balance the inherent need to attract, retain, and incentivize world class talent while aligning our entire organization directly with long-term shareholder interests.

Our Say on Pay Proposal is found on page 18 of this proxy statement, and the Board recommends that you vote 'FOR' this proposal. We also invite you to consider additional information on our compensation philosophy and decisions in the Compensation Discussion and Analysis. I am confident that our executive compensation programs will drive the behaviors and results the Board expects and those that are in the best long-term interest of our shareholders.

Sincerely,



*David A. Brandon*  
Chair, Board Executive Compensation Committee

## Compensation Discussion and Analysis

### Executive Summary

#### **Executive Officers Covered by this Compensation Discussion and Analysis**

We are required to provide information regarding our compensation policies and decisions related to our President and Chief Executive Officer (including any individual who served as our Chief Executive Officer during the past fiscal year), our Chief Financial Officer, and the three other most highly compensated executive officers serving as executive officers at the end of the fiscal year (including up to two additional officers who would qualify as a named executive officer but for the fact that he or she was not serving as such as of 2019 fiscal year-end). We refer to the foregoing individuals for whom disclosure is required as our Named Executive Officers ("NEOs"). We intend this Compensation Discussion and Analysis to provide information regarding, among other things, the overall objectives of our compensation program and each element of compensation provided to the NEOs.

The NEOs for fiscal year 2019 and their titles are listed in the following table:

<b>Name</b>	<b>Title</b>
Andrea R. Owen	President and Chief Executive Officer (CEO)
Brian C. Walker <sup>(1)</sup>	Former President and Chief Executive Officer
Jeffrey M. Stutz	Chief Financial Officer (CFO)
Gregory J. Bylsma	President, North America Contract
Stephen C. Gane <sup>(2)</sup>	Former President, Herman Miller Specialty Brands
Jeremy J. Hocking	President, Herman Miller International
B. Ben Watson	Chief Creative Officer

<sup>(1)</sup> Mr. Walker was not eligible to participate in the fiscal 2019 annual incentive or long-term incentive programs due to his retirement. Mr. Walker retired effective August 21, 2018, from all positions with the company including as a member of our Board of Directors. Mr. Walker is listed as a NEO in accordance with the SEC's disclosure requirements.

<sup>(2)</sup> Mr. Gane's role as President of Herman Miller Specialty Brands ended on May 31, 2019, the day before the last day of fiscal 2019 year end. Mr. Gane is listed as a NEO in accordance with the SEC's disclosure requirements.

#### **Fiscal 2019 Company Performance**

We continued to make significant progress in fiscal 2019 on our long-term vision for creating shareholder value. In addition to meaningful progress on our key strategic priorities, we achieved increased sales and orders for the ninth consecutive year and delivered consolidated revenue of \$2,567.2 million in fiscal 2019. Revenue growth, strong expense management, and a lower tax rate helped offset commodity costs and tariff headwinds to deliver adjusted EPS 29%<sup>(1)</sup> over the prior year, which is discussed elsewhere in this Proxy Statement. We also continued to maintain a strong balance sheet and cash flow profile. As a result of this financial performance, we recently announced a 6% increase to our quarterly dividend rate beginning in October 2019.

#### **Overview of Compensation Philosophy and How We Set Pay**

##### **Overview of Compensation Program**

We have designed our compensation program to provide executive officers performing their duties at a proficient level with target compensation levels that reflect the market median compensation for their position based upon data that our independent compensation consultant provides (as we describe in the section on "Benchmarking of Compensation"). The compensation program requires that a majority of the executive officer's compensation be determined based upon the company's performance. The Committee believes that the compensation program, through the use of base salary, annual incentive and long-term incentive awards (referred to collectively as "total annual compensation") operates in a manner consistent with these objectives. The Committee also believes that the compensation program rewards performance that generates both consistent and long-term enhancement of shareholder value.

<sup>(1)</sup> Non-GAAP measurements; see accompanying reconciliations and explanations on pg. 48.

## Compensation Discussion and Analysis *(continued)*

### **Compensation Philosophy**

The Company's compensation philosophy, as approved by the committee, is to provide compensation levels that are commensurate with individual and company-wide performance by rewarding appropriate levels of risk-taking in consideration of creating shareholder value. We establish market-competitive target compensation levels but provide the opportunity to earn above or below-target levels based on this performance. Consistent with this philosophy, the key objectives of our executive officer compensation program are to:

- Link a material portion of executive officers' total annual compensation directly to the company's performance.
- Reinforce our commitment to our people, planet, and communities.
- Align the interests of executive officers with the long-term interests of shareholders.
- Attract, motivate, and retain executive officers of outstanding ability.

### **Compensation Policies and Practices That Reflect Our Compensation Philosophy**

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#### **What We Do**

✓	Pay for Performance
✓	Balance Long-Term and Short-Term Incentives
✓	Benchmark Compensation Against an Appropriate Peer Group
✓	Maintain Clawback Policy
✓	Conduct an Annual Risk Assessment
✓	Maintain Stock Ownership Requirements
✓	Prohibit Hedging and Pledging
✓	Limit Perquisites
✓	Engage an Independent Compensation Consultant
✓	Hold Executive Officer Sessions at Each Committee Meeting

#### **What We Do Not Do**

✗	No Gross-Ups for Excise Taxes
✗	No "Single Trigger" Severance
✗	No Repricing of Options
✗	No Guaranteed Compensation
✗	No Dividends on Unvested Equity

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## Compensation Discussion and Analysis *(continued)*

### **Elements of the Compensation Program**

The following table provides an executive summary of our fiscal 2019 compensation program for our executive officers:

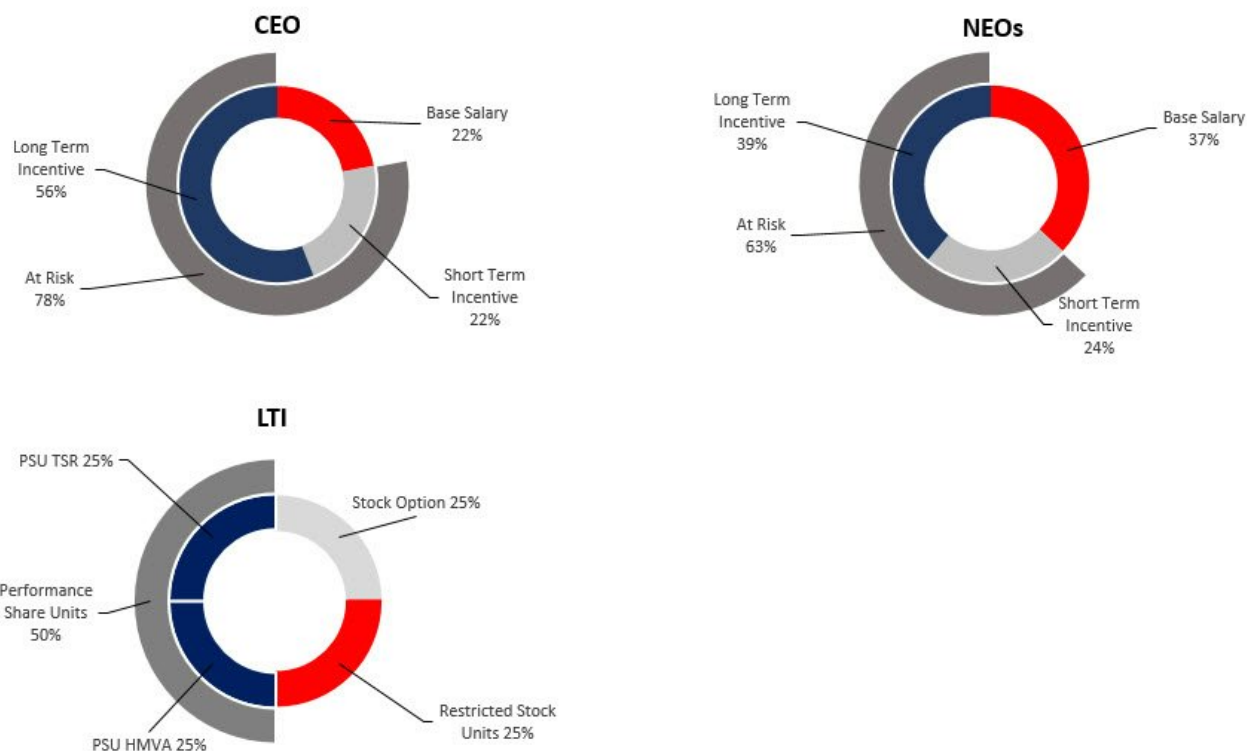
Compensation Element	General Description	Objective of Compensation Element
Base Salary	Base salaries reflect market rates for comparative positions, each NEO's historical level of proficiency and performance, as well as their roles and duties.	The base salary of NEOs typically varies around the median depending on an individual's experience, performance and internal equity considerations. The Committee or the Board in each circumstance uses its judgment and experience in setting the specific level of base salary relative to the general market median data.
Annual Incentive	<p>We provide executive officers the opportunity to earn an incentive pursuant to the Annual Executive Incentive Cash Bonus Plan. The plan provides for the annual payment of a cash bonus (incentive) to selected executive officers based upon the performance of the company (and in some cases, various business units and/or functional goals) during the fiscal year. The primary measure of financial performance for the fiscal 2019 incentive was measured by adjusted EBITDA, which represents the company's earnings before interest, taxes, depreciation and amortization (excluding non-controlling ownership interests).</p> <p>An executive officer's total cash compensation is comprised of both base salary and annual incentive.</p>	<p>The purpose of the Annual Executive Incentive Cash Bonus Plan is to closely link incentive cash compensation to the creation of shareholder value. We intend for the plan to foster a culture of performance, promote employee accountability, and establish a framework of manageable risks imposed by variable pay. We also intend the plan to reward long-term, continued improvements in shareholder value with a share of the wealth created.</p> <p>The Committee believes that, to support the Company's strategy around operating as a single business unit as well as supporting functional business units, it is important to tie a significant portion of the executive officers' annual incentive to the overall company performance (as well as functional business units supported by executive officers as applicable).</p>
Long-Term Equity Incentives	The Committee and Board have historically granted various types of long-term incentive awards including: Restricted Stock Awards, Restricted Stock Units, Performance Share Units, Relative TSR Performance Share Units, and Stock Options with a three year vesting period.	<p>The key objectives of granting long-term equity incentive awards are:</p> <ul style="list-style-type: none"> <li>- to provide an appropriate level of equity reward to executive officers that ties a meaningful part of their compensation to the long-term returns generated for shareholders.</li> <li>- to provide an appropriate equity award to the next level of executive officers where market data would support their inclusion in an annual equity award plan.</li> <li>- to assist the achievement of our share ownership requirements.</li> <li>- to attract, retain and reward key employees. We believe a significant portion of executive officer pay should be aligned with long-term shareholder returns and that encouraging long-term strategic thinking and decision-making requires that executive officers have a significant stake in the long-term success of Herman Miller.</li> </ul>
Retirement and Health Benefits	We maintain retirement plans along with a broad base of health insurance plans available to full-time and most part-time employees.	The NEOs participate in such retirement plans and health insurance plans on the same terms as all other employees within their respective geographic region or business unit.
Other Executive Compensation Plans	We provide limited additional compensation programs to our executive officers including a compensation protection program in the form of executive long-term disability; a retirement equalization program in the form of a non-qualified retirement match program with an optional deferred compensation element.	It is our goal to provide market competitive benefits which allow us to attract and retain critical executive talent.



## Compensation Discussion and Analysis (continued)

The following charts illustrate the key elements of our compensation for our NEOs:

### Elements of Total Annual Compensation for fiscal 2019



### Base Salary Fiscal 2019

The Committee and the Board granted merit increases for fiscal 2019 to our employees, including the NEOs. The base salaries of each of our NEOs was within the range established based on market data for their position. Salary changes went into effect on or after July 16, 2018, and are detailed as follows:

Name	Salary for Fiscal 2019	Percent Increase from Prior Year
Andrea R. Owen <sup>(1)</sup>	\$ 1,000,000	N/A
Brian C. Walker <sup>(2)</sup>	\$ 975,000	—%
Jeffrey M. Stutz	\$ 480,000	6.7%
Gregory J. Bylsma	\$ 480,000	3.2%
Stephen C. Gane	\$ 350,000	2.9%
Jeremy J. Hocking <sup>(3)</sup>	\$ 348,234	28.8%
B. Ben Watson	\$ 445,000	3.5%

(1) Ms. Owen became President and CEO of the Company as of August 22, 2018.

(2) Mr. Walker retired effective August 21, 2018 and did not receive a salary increase for fiscal 2019.

(3) Measured in pounds sterling at an exchange rate of 1.2994 would yield £268,000.

Ms. Owen's salary was established in connection with her commencement as the company's President and CEO. Mr. Stutz's increase is the result of his proficient performance in his role as CFO, particularly in light of the complexities in the global financial environment. Mr. Bylsma's increase reflects his continued improvement of the company's operations capabilities as well as his new responsibility for the overall North America Contract business which includes North America Work, Government, Healthcare and Education businesses. Mr. Gane's increase was in recognition of his leadership of the Specialty Business. Mr. Hocking increase was in recognition of his new leadership role as President of

## Compensation Discussion and Analysis *(continued)*

Herman Miller International. Mr. Watson's increase is in recognition of the improvement in the company's brand strategy and messaging, his new responsibility for R&D and our global portfolio of new products.

Due to a reorganization of the leadership team In February 2019, Messrs. Stutz, Bylsma, and Watson received a base salary increase due to increased responsibilities. Their salaries for fiscal 2019 after the reorganization are as follows:

Name	Salary for Fiscal 2019	Percent Increase
Jeffrey M. Stutz	\$ 510,000	6.3%
Gregory J. Bylsma	\$ 550,000	14.6%
B. Ben Watson	\$ 480,000	7.3%

### Annual Executive Incentive Cash Bonus Plan

#### Setting Incentive Targets

Each year, the Committee establishes a target incentive for each participant, expressed as a percentage of base salary, which is the incentive amount the NEO would receive if all performance goals were achieved at target. The NEOs each have the opportunity to earn up to a maximum of 200% of target and may earn zero percent of target if our goals are not achieved. The annual cash incentive opportunity levels for each of our NEOs for 2019, as a percentage of base salary, were as follows:

Name	Threshold Incentive as % of Base Salary	Target Incentive as % of Base Salary	Maximum Incentive as % of Base Salary
Andrea R. Owen	0%	100%	200%
Brian C. Walker	N/A	N/A	N/A
Jeffrey M. Stutz	0%	65%	130%
Gregory J. Bylsma	0%	65%	130%
Stephen C. Gane	0%	65%	130%
Jeremy J. Hocking	0%	65%	130%
B. Ben Watson	0%	65%	130%

We set the target incentive percentage for the NEOs so that the incentive at target performance will generally equal 100% of the market median incentive amount for comparable positions as shown in the market data and yield a median target total compensation opportunity, although we may adjust base pay and incentive to maintain total compensation in an amount that is consistent with our compensation philosophy. The Committee believes that this use of incentive is consistent with the objective of making compensation for executive officers more variable with the company's performance.

The Committee, at the beginning of each fiscal year, establishes threshold, target, and maximum performance goals under our Annual Executive Cash Incentive Bonus Plan. The Committee determines these performance goals after review and discussion with management of the company's annual financial plan as approved by the Committee and the Board. For fiscal 2019, each NEO's annual incentive was tied to our 2019 consolidated adjusted EBITDA results. Messrs. Bylsma, Gane, and Hocking also had a portion of their incentive based on the adjusted EBITDA results for the business units they lead.

#### 2019 Performance Results and Incentive Payouts

For fiscal 2019, the Committee established consolidated adjusted EBITDA performance goals based on its review of the Board-approved financial plan and discussions with management. The target was set above fiscal 2018 target and actual adjusted EBITDA performance reflecting our growth imperative and our expectations of continued growth in specified markets.

Performance Measure	Performance Goals			Actual Performance
	Threshold	Target	Maximum	
Consolidated adjusted EBITDA	\$255.8M	\$300.9M	\$346.0M	\$290.8M

## Compensation Discussion and Analysis (continued)

Based on the performance results for fiscal 2019, the incentive amounts the Company paid to the NEOs were as follows:

Name	Target incentive Percent Tied to adjusted EBITDA	Company Performance Factor	Incentive Earned For Company Performance	Target Incentive Percent tied to Business Unit	Business Unit Performance Factor	Incentive Earned For Function/ Bus Unit Performance	Total Incentive Amount Paid	Incentive Amount Deferred <sup>(1)</sup>
Andrea R. Owen	100.00%	0.7761	\$ 776,100				\$ 776,100	\$ 38,805
Brian C. Walker	N/A	0.7761	\$ —				\$ —	\$ —
Jeffrey M. Stutz	65.00%	0.7761	\$ 243,324				\$ 243,324	\$ 26,766
Gregory J. Bylsma	32.50%	0.7761	\$ 124,548	32.50%	0.7943	\$ 127,462	\$ 252,010	\$ 25,201
Stephen C. Gane	32.50%	0.7761	\$ 87,882	32.50%	1.6407	\$ 185,800	\$ 273,682	\$ 54,736
Jeremy J. Hocking	32.50%	0.7761	\$ 87,825	32.50%	2.0000	\$ 226,352	\$ 314,181	\$ —
B. Ben Watson	65.00%	0.7761	\$ 227,413				\$ 227,413	\$ 22,741

(1) This amount represents the portion of the bonus that the NEO elected to defer under the Herman Miller, Inc. Executive Equalization Retirement Plan described later in this Compensation Discussion and Analysis.

Prior to incentive payout, the Audit Committee approves the calculation of financial results for the year and the resulting company performance factor. The Committee also certifies the company performance factor and the function/business unit performance factors for use in the incentive calculation. The Committee did not elect to exercise any discretion in its determination of incentive payouts for the NEOs.

### Long-Term Equity Incentives

#### Setting Target LTI Values

For each Executive Officer, the Committee calculates a target value of LTI grants for the current fiscal year that is expressed as a percentage of base salary and determines the percent of the target LTI value that should be allocated to each award type. The Committee sets the total target value of the LTI grants for each NEO at a level intended to ensure that the NEO's total direct compensation would correspond with the market median of the market data for a comparable NEO's individual position. Following the end of the fiscal year, the Committee determines the total value of LTI grants for each NEO based on each NEO's target value and the company's financial performance for that year relative to target. We convert that value for each NEO into grants of restricted stock units and performance share units based on the closing price of our stock on the date of grant and grants of stock options using a Black-Scholes valuation on the date of grant, using the share price on the date of grant as the exercise price.

#### Grants Awarded in Fiscal 2019

The table below illustrates the target value of the LTI grants, expressed as a percentage of the NEO's base salary, that the Committee and Board established and granted in July 2018, and in the case of Ms. Owen, were granted on August 22, 2018, the date of her commencement of employment and in accordance with her employment agreement with the Company. The target values associated with these grants were allocated approximately equally among the following four award types: RSUs, Herman Miller Value Added Performance Share Units, Relative Total Shareholder Return Performance Share Units, and stock options. Each of these awards, as described in more detail below, directly ties management's compensation opportunity to the creation of shareholder value.

The following table discloses the awards granted in fiscal 2019:

Name	Target of LTI as a % of Salary	Restricted Stock Units	Herman Miller Value Added Performance Share Units at Target	Relative Total Shareholder Return Performance Share Units at Target	Number of Stock Options	Option Exercise Price
Andrea R. Owen	250%	16,383	16,383	12,164	77,447	38.15
Brian C. Walker	N/A	—	—	—	—	N/A
Jeffrey M. Stutz	125%	3,672	3,672	2,647	17,512	38.30
Gregory J. Bylsma	125%	3,794	3,794	2,735	18,096	38.30
Stephen C. Gane	90%	1,997	1,997	1,440	9,527	38.30
Jeremy J. Hocking	80%	1,459	1,459	1,052	6,958	38.30
B. Ben Watson	90%	2,526	2,526	1,821	12,049	38.30

## Compensation Discussion and Analysis (continued)

### Key Features of Each Award

*Restricted Stock Units:* The restricted stock units (RSUs) represent the right to receive shares of Herman Miller, Inc. common stock. Each unit represents the equivalent of one share of the common stock as of the date of grant and cliff vests after three years. RSUs convert into shares upon vesting. Dividends are not paid over the vesting period but accrue on the RSUs and are added to the total value of the units at the time of vesting. Upon vesting, three years after grant, the actual value an executive officer may realize is directly related to the value created over the vesting period.

*Herman Miller Value Added Performance Share Units:* The Herman Miller Value Added (HMVA) performance share units are units representing the right to receive company shares of at the end of the specified performance period. The Committee establishes the Herman Miller Value Added goals at the start of each three-year performance period. These units cliff vest after three years if certain Herman Miller Value Added goals are met. The awards provide that the total number of shares that vest may vary between 0% and a maximum of 200% of the number of units awarded depending upon performance relative to the established Herman Miller Value Added goal. HMVA performance share units convert into company stock upon vesting. Dividends do not accrue on the awards. The awards also provide the Committee the ability to extend the performance period to a total of five years; however, if the extension is granted, then no more than 34% of the target grant may vest.

Herman Miller Value Added is defined as the Company's annual earnings before interest, taxes, depreciation and amortization, adjusted for non-recurring and special charges as outlined below (EBITDA), less a capital charge. The capital charge for each cycle is determined by multiplying the company's capital by its cost of capital. The Committee approves the determination of the cost of capital and EBITDA for purposes of the Herman Miller Value Added Performance Share Units. HMVA PSUs are not earned if the Company has not been able to generate returns above our cost of capital - and the value of any units that are earned is directly related to the value shareholders have realized over the performance and vesting period.

*Relative Total Shareholder Return ("TSR") Performance Share Units:* Relative TSR Performance Share Unit Awards are units representing the right to receive company shares at the end of the specified performance period. These units cliff vest after three years if we meet certain TSR objectives. The awards provide that the total number of shares that finally vest may vary between 0% and a maximum of 200% of the number of units awarded depending upon performance relative to established total shareholder return goals, with the award amount vesting if performance is at the target level. Any value ultimately realized by the executive officers is directly related to both Herman Miller's relative TSR as well as the absolute performance of our share price.

TSR is the total shareholder return to Herman Miller shareholders including reinvested dividends and share price changes that occur during a fiscal year. We determine TSR performance by comparing the company's TSR to a peer group of companies. The peer group of companies for fiscal year 2019 is the same as the peer group that we use for purposes of benchmarking NEO compensation, and those companies are described below in the section entitled "Benchmarking of Compensation".

For Relative TSR Performance Share Units granted in fiscal year 2019, the Committee established the following vesting goals:

<b>Payout % of Target</b>	<b>3-year Average Relative TSR</b>
200% of Target PSUs	80 <sup>th</sup> percentile or greater
100% of Target PSUs	50 <sup>th</sup> percentile
No PSUs Earned	Below 30 <sup>th</sup> percentile

*Stock Options:* The options vest ratably over three years and have a ten-year life, and the exercise price of each option equals the fair market value of our stock on the date of grant.

### Program Design Changes for Fiscal 2020

The following chart illustrates design changes made to both the Annual Incentive and Long-Term Incentive Programs that simplify the programs and ensure alignment and motivation of executive officers towards achieving key strategic priorities while delivering strong financial performance and creating shareholder value.

## Compensation Discussion and Analysis (continued)

	Design Change	Reason for Change
Annual Incentive Program	Replaced Adjusted EBITDA with Adjusted Operating income as the primary financial metric.	- Operating income is more closely monitored by investors. - Operating income better recognizes our goals related to capital allocation and margin expansion.
	Incentive will be based solely on consolidated corporate performance for all participants.	- Coming together as a family of complementary brands under One Herman Miller requires the entire leadership team to be aligned around the same corporate performance goals.
Long-Term Incentive Program	Change in the mix of LTI awards from: 25% HMVA PSUs, 25% rTSR PSUs, 25% stock options, and 25% time-based RSUs to 45% Operating Income Growth PSUs, 30% Revenue Growth PSUs, and 25% time-based RSUs; with the PSUs having a rTSR modifier of +/-25%.	- Reduce dilution while creating greater focus on absolute long-term financial performance. 75% of executive officers' long-term incentive award opportunity is subject to achievement of multi-year financial goals.
		- Operating Income and Revenue Growth provide clear line of sight for our employees and our shareholders on the alignment of our financial performance with share price. The growth orientation of these new measures is clearly linked to our strategy.
		- The payout opportunity for all PSUS (75% of the target award opportunity) is subject to modification based on our TSR performance relative to the peer group.
		- The relative TSR modifier provides for a 25% increase to the PSU vesting if our relative TSR performance is at or above the 75 <sup>th</sup> percentile of the peer group or a 25% decrease to the PSU vesting if our relative TSR performance is below the 25 <sup>th</sup> percentile of the peer group.
		- The relative TSR modifier cannot increase the PSU payout above 200% of target.
- Create a more direct linkage between critical financial goals and leadership team earning opportunity.		
- Our performance against our three-year growth goals will have a significant impact on our ability to create future shareholder value.		

### Base Salary for Fiscal 2020

The Committee and Board of Directors approved the following changes in the base salaries of the continuing NEOs for fiscal 2020 as we discuss below:

Name	Salary for Fiscal 2020	Percent Increase
Andrea R. Owen	1,000,000	—%
Jeffrey M. Stutz	516,000	1%
Gregory J. Bylsma	556,000	1%
Jeremy J. Hocking <sup>(1)</sup>	400,000	15%
B. Ben Watson	486,000	1%

(1) Measured in pounds sterling at an exchange rate of 1.2994 would yield £307,834.

Mr. Hocking's increase was in recognition of continued expanding of responsibilities in new role and the International business unit's performance. Messrs. Stutz, Bylsma, and Watson received mid-year increases in fiscal 2019 as mentioned in the Base Salary Fiscal 2019 section. The 1% increase is due to adjustments made to their compensation packages as part of the elimination of the bundled benefits program. Ms. Owen's base salary was not adjusted for fiscal 2020.

### LTI Grants Awarded in Fiscal 2020

The target value of the LTI grants that the Committee and Board established for our NEOs that occurred in July 2019 (fiscal 2020) as a percent of base salary was 275% for Andrea Owen and 125% for Jeffrey Stutz, Gregory Bylsma, Jeremy Hocking and Ben Watson. The total target value was allocated 45% Adjusted Operating Income PSUs, 30% Revenue Growth PSUs, and 25% RSUs with the PSUs having a rTSR modifier of +/-25%.

## Compensation Discussion and Analysis *(continued)*

The following table discloses the types of awards granted in July 2019 (fiscal 2020):

Name	Restricted Stock Units	Adjusted Operating Income Performance Share Units at Target	Revenue Growth Performance Share Units at Target
Andrea R. Owen	15,319	25,976	17,317
Jeffrey M. Stutz	3,593	6,093	4,062
Gregory J. Bylsma	3,871	6,565	4,377
Jeremy J. Hocking	2,787	4,725	3,150
B. Ben Watson	3,384	5,738	3,826

### Details of our Executive Compensation Program

#### ***Role of the Committee***

The Committee consists of three directors, each qualifying as independent under NASDAQ's listing requirements. The Board has determined that each member of the Committee also meets the definition of independence under our corporate governance guidelines and qualifies as a non-employee director for purposes of Rule 16b-3 under the Securities Exchange Act of 1934.

The Committee's primary functions are to oversee the compensation philosophy and strategy, to determine or recommend the compensation of company executive officers, including the NEOs, and to act as the administrative committee for our executive compensation and broad-based equity and benefit plans.

The Committee is also responsible for providing recommendations to the full Board with respect to all aspects of the annual compensation of our President and CEO. In addition, the Committee, based upon recommendations from our CEO, approves the annual compensation for all other officers covered by Section 16 of the Securities Exchange Act of 1934 including the NEOs and other executive officers. Our President and CEO establishes the base salary of all other executive officers.

Among other responsibilities, the Committee establishes the performance objectives for the Annual Executive Incentive Cash Bonus Plan and our equity-based compensation plans, which cover the President and CEO, NEOs, other executive officers and other executive employees.

The Committee is also tasked to review and approve compensation and benefit plans as required by the Committee Charter and review the annual compensation plans' risk assessment. The Committee annually reviews tally sheets for each NEO that reflect the total direct compensation provided to the NEOs and information relating to all other elements of compensation including payments under severance or change in control obligations. The Committee uses this information to help it determine that our compensation program is consistent with market norms and with our compensation philosophy and the objectives referenced above.

#### ***Role of the External Compensation Consultants***

The Committee has the authority and sole discretion to select independent compensation consultants, legal consultants and other advisors to provide it independent advice. The Committee retained Pay Governance LLC as its independent compensation consultants with respect to the compensation matters regarding our executive officers for fiscal 2019. The independent services that Pay Governance provided to the Committee included reviewing the elements of compensation of the President and CEO as well as the other executive officers and comparing those elements to our compensation philosophy and objectives and to market practices. We do not permit Pay Governance to provide other consulting services to the company.

Pay Governance concluded that our compensation program established for those officers is consistent with our compensation philosophy and objectives as well as with market practices. With the approval of the Committee, management retained Meridian Compensation Partners LLC in fiscal 2019 to provide compensation consulting services to management for employees other than the executive officers.

#### ***Benchmarking of Compensation***

To ensure that executive officer compensation is competitive, the Committee uses marketplace compensation data to compare our compensation program to market pay practices. The Committee, in determining fiscal 2019 compensation, also used a specific peer group for benchmarking compensation. A listing of the peer group members is provided below. This peer group included both direct competitors as well as comparable companies in other industries to reflect the competitive market for talent in which we compete.



## Compensation Discussion and Analysis *(continued)*

Pay Governance used the peer group information along with the following survey sources when analyzing the fiscal 2019 market competitiveness of pay levels of executive officers: Willis Towers Watson Executive Compensation Database, Aon Hewitt Executive Total Compensation Measurement Database and Mercer Executive Database (we refer to the peer group information and these survey sources collectively as “market data”). The market data is used to determine competitiveness of base pay, annual incentive and long-term incentive awards. Pay Governance uses a regression analysis and aging to make allowances for time differences in the data and to align the data so that it is representative of companies having revenues equivalent to the operations that our individual executive officers manage. Pay Governance compared the base salary, target total cash and target total direct compensation of each executive officer to the 25th, 50th (market median) and 75th percentile of the Market Data for a comparable benchmark position.

Pay Governance provided the Committee with benchmarking data, market practices and trends, peer group selection and pay for performance evaluation information to provide appropriate context for the Committee’s deliberations. Our former CEO made recommendations to the Committee regarding the compensation package for each of the executive officers (other than himself). The former CEO based his recommendations with respect to executive officers on the Pay Governance information, his evaluation of the individual’s performance, the company’s performance and other factors. The Committee based its approval of the former CEO’s recommendations for the compensation of executive officers (other than the CEO) on the Committee’s review of the information from Pay Governance relative to market pay, advice from Pay Governance and the Committee members’ own judgment, including their judgment on the relative performance of both the company and its executive officers. Ms. Owen’s compensation was established in connection with the commencement of her employment with the Company.

The Committee reviews and approves the peer group that we use in benchmarking compensation on an annual basis. The peers that we used for fiscal 2019 are set forth below:

American Woodmark Corporation	JELD-WEN Holdings, Inc.	RH aka Restoration Hardware Holdings, Inc.
Armstrong World Industries, Inc.	Kimball International, Inc.	Sleep Number Corporation
Ethan Allen Interiors, Inc.	Knoll, Inc.	Steelcase, Inc.
Hill-Rom Holdings, Inc.	La-Z-Boy, Inc.	Tempur Sealy International, Inc.
HNI Corporation	Leggett & Platt, Inc.	Universal Forest Products, Inc.
Interface, Inc.	Masonite International Corporation	Williams-Sonoma, Inc.

Our peer group is intended to represent companies against which we may compete for talent, with an emphasis on a number of criteria. For fiscal 2019, we made a number of changes to the 2018 peer group in light of these criteria: We removed Aaron’s, Acuity Brands, Belden, Brunswick, Lennox International and Polaris because of differences in industry and customer focus. We replaced these six companies with American Woodmark, Armstrong World Industries, JELD-WEN, Masonite, Universal Forest Products and Williams Sonoma which better meet our selection criteria and enable us to maintain a peer group of robust size.

### **EBITDA Adjustments**

The Committee has adopted guidelines for determining when adjustments to the company’s EBITDA are appropriate in calculating incentive plan performance. Under these guidelines, the Committee will consider whether adjustments are appropriate to best reflect the operating results of our business and appropriately incent management in a manner that is in the best interest of shareholders. Some common examples of potential adjustments under the guidelines include restructuring related charges, transaction costs, effects of purchase accounting, and income associated with acquisitions. We may exclude these items only in limited circumstances or only for certain periods or specified awards. The guidelines also include a framework for evaluating potential EBITDA adjustments that considers as to a potential item of adjustment:

- Whether it is material to the result of the business;
- Its impact on near-term cash flows;
- Whether it is an accounting adjustment that does not reflect the ongoing operations of the business;
- Whether it aligns the company’s performance outlook with long-term shareholder interests;
- Whether the adjustment unfairly impacts one business unit;
- Whether the company has made similar adjustments in recent reporting periods; and
- Whether the related income or expense was offset in a prior reporting period (and, if so, if it was excluded from EBITDA).

## Compensation Discussion and Analysis *(continued)*

For fiscal 2019, company EBITDA performance was adjusted for incentive plan purposes to reflect the following items (refer to the section “Reconciliation of Non-GAAP Measures” for further information):

Description	Adjustment to EBITDA (\$ millions)	Rationale for the Adjustment
Restructuring Charges, net of amortization	\$8.9	Ensure management’s near-term compensation goals are not in conflict with the long-term strategic objectives of the business. Instead, these costs will be amortized over a 5-year period and such amortization will be included in the annual incentive bonus calculation.
Third Party Consulting Expense, net of amortization	\$(4.8)	Ensure the company’s profit optimization plans for the Retail and North America Contract business segments are not in conflict with management’s near-term compensation goals. Instead, related costs are amortized against EBITDA as the savings from the initiatives are realized on a dollar-for-dollar basis. Third party consulting expense was fully amortized as of 2019 fiscal year-end
CEO Transition Plan Expenses	\$4.5	CEO transition plan costs are not reflective of the ongoing operation of the business.
Investment Gain	\$(2.1)	The Committee determined it is appropriate to exclude a one-time, non-cash investment gain.

### Long-Term Equity Incentives

Our 2011 Long-Term Incentive Plan (which we refer to as the LTI Plan) authorizes us to grant various forms of equity-based compensation (which we refer to as Long-Term Incentive Grants or LTI grants or awards). The Committee is responsible for administering all elements of the LTI Plan and for making all Long-Term Incentive Grants, with the exception of the CEO whose grants the Board approves.

The Committee establishes targets relating to Long-Term Incentive awards at the beginning of each fiscal year for grants made in July for that fiscal year. Typically, the Committee and the Board at their June and July meetings take four actions in connection with our LTI Plan: (a) set the target value for the LTI awards for the current fiscal year, (b) determine the types of awards to be used for the current fiscal year, (c) establish the performance criteria, if any, for certain awards for the current fiscal year; and (d) grant the long-term incentive awards for the current fiscal year.

Grants under the LTI Plan are typically made in connection with the Board of Directors meeting in July of each year following the public release of our fiscal year-end financial results. We do not attempt to influence the amount of executive officer compensation by timing equity grants in connection with the disclosure of material information to the public. The backdating of equity award dates is specifically prohibited under policies adopted by the Board of Directors.

### Retirement and Health Benefits

#### Health Plans

We maintain a broad-base of health insurance plans available to all full-time and qualified part-time employees. The NEOs participate in such health insurance plans on the same terms as all other employees within their respective geographic region or business unit.

#### Retirement Plans

We maintain broad-based retirement plans available for employees in the United States and the United Kingdom (UK). Our retirement plans are designed to provide an appropriate level of replacement income upon retirement. The benefits available to NEOs are the same as those available to other non-executive employees in their respective geographic region subject to limitations provided by law or regulation. The retirement plans include:

- The Herman Miller, Inc. Profit Sharing and 401(k) Plan
- The Herman Miller Limited Retirement Benefits Plan (UK)



## **Compensation Discussion and Analysis** *(continued)*

Profit Sharing Plan and 401(k) Plan: The Herman Miller, Inc. Profit Sharing and 401(k) Plan consists of two parts. First, we make a core contribution to an employee's 401(k) account equal to 4% of base salary on a quarterly basis. The amount of salary included in the calculation is limited to the maximum salary level permitted by the IRS. Second, the 401(k) portion of the plan permits employees to make salary deferrals into the plan up to the maximum amount permitted by law. We also make a matching contribution to fully match employee contributions up to 4% of the employee's compensation contribution.

Herman Miller Limited Retirement Plan: Herman Miller Limited, our wholly owned UK subsidiary, provides a defined contribution retirement plan which provides for a non-discretionary fixed company contribution and a company matching contribution. The fixed company contribution for employees varies between 2.4% and 6.4% of the employee's eligible compensation depending upon age and date of hire. In addition, the company will match an employee's contributions up to an additional 2.8% of eligible compensation. Jeremy Hocking is the only NEO who participates in this defined contribution retirement plan. He is also a participant in the frozen defined benefit plan sponsored by Herman Miller Limited for employees hired prior to March 1, 2012.

### **Other Executive Compensation Plans**

#### ***Deferred Compensation Plan***

The Herman Miller, Inc. Executive Equalization Retirement Plan was approved by the Committee and the Board in 2007. The plan is a supplemental deferred compensation plan and became available for salary deferrals beginning in January 2008. The plan is available to highly compensated United States employees who are selected for participation by the Committee. All NEOs are currently able to participate, except Jeremy Hocking due to his employment outside the United States. The plan allows participants to defer up to 50% of their base salary and 100% of their incentive. Company contributions to the plan "mirror" the amounts we would have contributed to the Herman Miller Profit Sharing and 401(k) Plan had the employee's compensation not been above the statutory ceiling (currently \$280,000). Investment options under this plan are the same as those available under the 401(k) Plan. Company contributions in fiscal 2019 appear in the 2019 Summary Compensation Table under All Other Compensation.

#### ***Executive Long-Term Disability Plan***

The plan covers 60% of the rolling two-year average of compensation. executive officers are eligible to participate when they have earned over \$6,000 in annual executive incentive compensation. This benefit continues as long as the executive officer remains disabled until age 65. The monthly benefit is capped at \$10,000.

#### ***Perquisites***

We eliminated the program previously provided to executive officers, effective May 31, 2019. The Committee has adopted a policy that specifically restricts the use of corporate aircraft for non-business purposes.

Mr. Hocking has a Spouse Travel Reimbursement benefit in the amount of £20,000. He must pay the expense as incurred from his personal funds and submit the proper form for reimbursement. This reimbursement benefit does not have a carry forward option to the next plan year.

In fiscal 2019, we provided the NEOs and all other executive officers with the opportunity to obtain comprehensive physicals at our cost.

### **Retirement, Retention, and Change in Control Agreements**

#### ***Mr. Brian C. Walker's Retirement***

As previously disclosed, Mr. Walker retired from his position with the company as of August 21, 2018. In connection with his retirement, Mr. Walker agreed to extend his post-employment non-compete and non-solicitation covenants from 12 to 18 months and to an unlimited confidential information and non-disparagement covenant. He also agreed to be available on a consultative basis for 18-months after his retirement to help with the transition of the new CEO and specifically to provide the new CEO with guidance and back ground on our unique "contract" furniture business. In exchange for agreeing to extend his post-employment non-compete and non-solicitation covenants and to provide consulting services for up to 18 months, we agreed to pay Mr. Walker his base salary for an additional six months. Because Mr. Walker was already entitled to 12 months of base salary in exchange for his original 12 months of non-compete and non-solicitation covenants, he received base salary continuation for a total of 18 months following his retirement. We also agreed to provide Mr. Walker with a lump sum payment equal to 18 months of the employer portion of the premiums for his health and dental benefits. Mr. Walker was not eligible for any equity compensation grants for fiscal 2019 or for a 2019 annual incentive opportunity.

## **Compensation Discussion and Analysis** *(continued)*

### ***Change in Control Agreements***

Each NEO is party to a change in control agreement with us. The Committee believes the use of change in control agreements is appropriate as they help ensure a continuity of management during a possible take-over and help ensure that management remains focused on completing a transaction that is likely to maximize shareholder value. Potential payments under the change in control agreements are included in the tally sheets that the Committee reviews annually.

The narrative and footnotes to the tables entitled Potential Payments upon Termination, Death, Disability, Retirement or Change in Control describe the change in control payments in greater detail.

### ***Hedging and Pledging Policy***

The Committee and the Board of Directors have adopted a policy prohibiting the Board of Directors and executive officers from hedging the economic risk of their ownership of our stock, including options or other derivatives related to the stock, and are prohibited from pledging Herman Miller stock.

### ***Stock Ownership Guidelines***

The Committee believes that significant stock ownership by top management is of critical importance to our ongoing success, as it helps link the interests of senior management and our shareholders. As such, we have established stock ownership guidelines, which apply to the members of the Leadership Team and, beginning January 1, 2018, certain other executive officers who work alongside the Leadership Team to ensure global strategic alignment across business units and functions. The stock ownership guidelines require these individuals to own shares of our common stock equal to a specified multiple of their annual base salary. The applicable levels are as follows:

- |   |                     |
|---|---------------------|
| • President and Chief Executive Officer                                       | 6 times base salary |
| • Executive officers with LTIP target equal to or greater than 100% of salary | 4 times base salary |
| • Certain other direct reports to the CEO                                     | 3 times base salary |
| • Other executive officers  | 1 times base salary |

### ***Stock Retention Requirements***

Until the ownership guidelines are met, the executive officer must retain 40% of the pretax spread value of vested restricted stock, performance shares, restricted stock units, deferred stock, and 40% of the pretax spread value of exercised stock options must be retained in company stock. Compliance with the requirements is determined at each time an executive officer disposes of company stock.

### ***Incentive Clawback***

The Herman Miller Compensation Recovery Policy provides for the recoupment of certain compensation from Executive Officers in the event of a restatement and/or improper conduct. The Board may, in its sole discretion, after evaluating the associated costs and benefit, and any other factors it deems relevant, seek to recover all or any portion of the recoverable incentive paid to any such Executive Officer during the applicable period.

### ***Deductibility of Compensation***

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public corporations for compensation in excess of \$1 million paid for any fiscal year to individuals who are covered executives. For compensation paid for fiscal 2019, as a result of changes made to the applicability of Section 162(m) of the Code pursuant to the Tax Cuts and Jobs Act, our number of covered executives expanded to include our covered executives for 2019 plus any executive who, serves as our CEO or CFO, or who is among the three most highly compensated executive officers, for any fiscal year. In addition, only qualifying performance-based compensation that is paid pursuant to a binding contract in effect on November 2, 2017 will be exempt from the deduction limit. Accordingly, any compensation that we pay in the future pursuant to new compensation arrangements entered into after November 2, 2017, even if performance-based, will count towards the \$1 million fiscal year deduction limit if paid to a covered executive. Because of these changes to Code Section 162(m) by the Tax Cuts and Jobs Act, some of the compensation that we provide to our named executive officers in 2019 and future years may not be deductible under Section 162(m).

## **Compensation Discussion and Analysis** *(continued)*

### ***Post-Employment Compensation***

The NEOs are generally “at will” employees. This means that they can be discharged at any time and for no reason. We have agreed to pay executive officers' severance if they are terminated for reasons other than malfeasance or voluntary separation. For each NEO, severance would be equal to 18 months of base salary subject to the employee not competing with us during that period. The Committee's determination as to the amount of severance payments for these NEOs is the result of benchmarking our practices to the market data. In addition, we maintain the health insurance on such employee during the salary continuation period. In exchange for such payments the employee provides the company with a mutual release of all claims and agrees not to work for a competitor or solicit our employees during the salary continuation period.

### **Executive Compensation Committee Report**

The Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with Management and, based on such review and discussions, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Proxy Statement.

*David A. Brandon (chair)*

*Douglas D. French*

*Heidi J. Manheimer*

## Summary Compensation Table

The summary compensation table below shows the compensation for the NEOs for the fiscal years ended June 1, 2019 (2019), June 2, 2018 (2018) and June 3, 2017 (2017). The details of the company's executive officer compensation program are found in the Compensation Discussion and Analysis (CD&A) above.

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$) <sup>(1)</sup>	Option Awards (\$) <sup>(1)</sup>	Non-Equity Incentive Plan Compensation (\$) <sup>(2)</sup>	All Other Compensation (\$) <sup>(3)</sup>	Total (\$)
Andrea R. Owen <sup>(4)</sup>	2019	742,308	1,837,820	624,997	776,100	226,895	4,208,120
President and Chief Executive Officer							
Brian C. Walker <sup>(5)</sup>	2019	281,250	—	—	—	827,908	1,109,158
Former President and Chief Executive Officer	2018	966,327	1,782,466	920,000	894,142	165,106	4,728,041
	2017	916,846	1,626,984	1,240,002	684,059	233,597	4,701,488
Jeffrey M. Stutz	2019	482,308	413,575	140,621	243,324	321,011	1,600,839
Executive Vice President and Chief Financial Officer	2018	442,116	734,197	146,670	265,888	40,183	1,629,054
	2017	392,115	225,982	316,667	190,176	57,383	1,182,323
Gregory J. Bylsma	2019	493,846	427,319	145,311	252,010	322,357	1,640,843
President, North America Contract	2018	461,058	820,191	183,335	269,903	49,080	1,783,567
	2017	438,423	347,057	379,166	214,257	83,616	1,462,519
Stephen C. Gane <sup>(6)</sup>	2019	348,462	224,944	76,502	273,682	378,896	1,302,486
Former President, Herman Miller Specialty	2018	337,635	507,927	86,668	229,423	21,238	1,182,891
	2017	323,423	162,729	208,996	117,629	60,475	873,252
Jeremy J. Hocking <sup>(7)</sup>	2019	348,234	164,340	55,873	314,177	337,756	1,220,380
President, Herman Miller International	2018	279,344	330,618	64,481	189,563	110,225	974,231
	2017	267,495	31,510	31,522	103,627	126,253	560,407
B. Ben Watson	2019	450,769	284,507	96,753	227,413	407,293	1,466,735
Chief Creative Officer	2018	426,058	639,249	107,997	261,429	126,104	1,560,837
	2017	403,108	190,314	223,246	227,474	148,624	1,192,766

(1) For all NEOs, amounts represent the aggregate grant date fair value of stock awards and option awards computed in accordance with FASB ASC Topic 718. The assumptions used in calculating these amounts are set forth in Note 9 of the company's consolidated financial statements for the fiscal year ended June 1, 2019 included in our Annual Report on Form 10-K.

(2) Includes the amounts earned in fiscal 2019 and paid in fiscal 2020 under the Executive Incentive Cash Bonus Plan as described in the Compensation Discussion and Analysis for the NEOs. Certain executives have elected to defer a part of the incentive under the Key Executive Deferred Compensation Plan. The amount of the deferrals and the corresponding company contributions will be shown in next year's Nonqualified Deferred Compensation Table.

(3) The amounts for fiscal 2019 for all other compensation are described in the table below.

(4) Ms. Owen's employment with the Company commenced on August 22, 2018.

(5) Mr. Walker retired as President and Chief Executive Officer as of August 21, 2018.

(6) Mr. Gane's employment ended on May 31, 2019.

(7) Amounts paid to Mr. Hocking in GBP during fiscal 2019 are converted to USD using the average annual conversion rate for fiscal 2019 of 1.2994.

	Bundled Benefits <sup>(1)</sup>	Car Allowance (UK Only)	Payment in Lieu of Pension Contribution (UK Only)	Long-term Disability Insurance	Relocation Expenses	Personal Use of Company Property	Retention and Severance <sup>(2)</sup>	Nonqualified Deferred Compensation Contribution <sup>(3)</sup>	Total Other Compensation
Andrea R. Owen	—	—	—	—	226,895	—	—	—	226,895
Brian C. Walker	—	—	—	1,296	—	—	826,612	—	827,908
Jeffrey M. Stutz	16,176	—	—	2,661	—	—	265,888	36,286	321,011
Gregory J. Bylsma	11,719	—	—	3,435	—	—	269,903	37,300	322,357
Stephen C. Gane	21,865	—	—	3,716	—	—	329,423	23,892	378,896
Jeremy J. Hocking <sup>(4)</sup>	7,865	11,617	126,532	—	8,336	—	183,406	—	337,756
B. Ben Watson	22,073	—	—	3,543	—	86,426	261,429	33,822	407,293

- (1) Bundled Benefits are provided on a calendar year basis and include accounting fees, cell phone fees, club dues, family travel, education and training, home office expenses, vehicle expenses, and life insurance. Benefits for Messrs. Bylsma, Hocking, Stutz, and Watson include the approved amount for calendar 2019 plus carryover for calendar year 2018. Benefits for Mr. Gane include the approved amount for calendar 2019 plus carryover for calendar year 2018 and 2017. The bundled benefits program was discontinued as of 2019 fiscal year-end and all allowable calendar year expenses were incurred during fiscal 2019.
- (2) As part of the CEO transition, the Board initiated retention agreements with executive leaders that included a cash bonus payment matching to actual bonus percentage achieved for FY18, subject to a maximum payout amount of 250% (inclusive of the matching payment) of their annual target bonus, which 50% was paid on the date FY18 annual bonuses were paid (July 12, 2018) and 50% on the last pay period in December 2018 (December 27, 2018).
- (3) Amounts represent the company's contribution to the Herman Miller, Inc. Executive Equalization Retirement Plan.
- (4) Mr. Hocking serves the company through its United Kingdom subsidiary. As such, his benefits are paid according to the benefits paid in the United Kingdom, which are different from the benefits in the United States. His benefits include car allowance, spouse travel, and contributions to a pension plan. All amounts paid to Mr. Hocking in GBP are converted to USD using the average annual conversion rate for fiscal 2019 of 1.2994.

## Grants of Plan-Based Awards

The Grants of Plan-Based Awards table below sets forth information on equity awards granted by the company to the NEOs during fiscal 2019 under the Long-Term Incentive Plan (LTI Plan) and the possible payouts to the NEOs under the Annual Executive Incentive Cash Bonus Plan (Annual Cash Bonus Plan) for fiscal 2019. The Compensation Discussion and Analysis provides further details of grants under the LTI Plan, as well as the performance criteria under the Annual Cash Bonus Plan. (The LTI grants are discussed in the CD&A under the heading Long-Term Equity Incentives Grants Awarded in Fiscal 2019).

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup>			Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(2)</sup>			All Other Stock Awards: Number of Shares of Stock or Units (#) <sup>(3)</sup>	All Other Option Awards: Number of Securities Underlying Options (#) <sup>(4)</sup>	Exercise or Base Price of Option Awards (\$/Sh) <sup>(5)</sup>	Grant Date Fair Value of Stock and Option Awards (\$) <sup>(6)</sup>
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
Andrea R. Owen	08/22/18				0	28,547	57,094				1,212,808
	08/22/18							16,383			625,012
	08/22/18								77,447	38.15	624,997
		0	1,000,000	2,000,000							
Jeffrey M. Stutz	07/16/18				0	6,319	12,638				272,937
	07/16/18							3,672			140,638
	07/16/18								17,512	38.30	140,621
		0	313,500	627,000							
Gregory J. Bylsma	07/16/18				0	6,529	13,058				282,088
	07/16/18							3,794			145,310
	07/16/18								18,096	38.30	145,311
		0	321,000	642,000							
Stephen C. Gane	07/16/18				0	3,437	6,874				148,459
	07/16/18							1,997			76,458
	07/16/18								9,527	38.30	76,502
		0	226,500	453,000							
Jeremy J. Hocking	07/16/18				0	2,511	5,022				108,461
	07/16/18							1,459			55,880
	07/16/18								6,958	38.30	55,873
		0	226,352	452,704							
B. Ben Watson	07/16/18				0	4,347	8,694				187,762
	07/16/18							2,526			96,746
	07/16/18								12,049	38.30	96,753
		0	293,000	586,000							

(1) Under the Annual Cash Bonus Plan, executives can earn incentive compensation based on the achievement of certain company performance goals. The actual Cash Bonus amount paid with respect to any year may range from 0 to 2 times of the target based upon the relative achievement of our adjusted EBITDA targets as set forth in the Summary Compensation Table above.

(2) The performance share units represent the right to receive shares of the company's common stock, and such shares are to be issued to participants at the end of a measurement period beginning in the year that performance shares are granted. The units reflect the number of shares of common stock that may be issued if certain adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) and TSR return goals are met. The PSUs provide that the total number of shares which finally vest may vary between 0 and 200% of the target amount depending upon performance relative to the established adjusted EBITDA and TSR goals, respectively, and cliff vest after three years.

(3) The restricted stock units represent the right to receive shares of the company's common stock. These units reflect fair market value of the common stock as of the date of grant and cliff vest after three years.

(4) Each option has a term of ten years and vests pro rata over three years.

(5) Stock options are awarded at an option price not less than the market value of the company's common stock at the grant date in accordance with the LTI Plan.

(6) Aggregate grant date values are computed in accordance with FASB ASC Topic 718. For performance share units, the grant date fair value was determined based upon the vesting at 100% of the target units awarded.

## Outstanding Equity Awards at Fiscal Year-End

The Outstanding Equity Awards at Fiscal Year-End table below shows the option awards and stock awards that were outstanding as of June 1, 2019. The table shows both exercisable and unexercisable options. The table also shows share units and equity plan awards that have not vested.

Name	Grant Date	Option Awards				Stock Awards			
		Number of Securities Underlying Unexercised Options (#) <sup>(1)</sup> Exercisable	Number of Securities Underlying Unexercised Options (#) <sup>(1)</sup> Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) <sup>(2)</sup>	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(3)</sup>	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) <sup>(4)</sup>	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(3)</sup>
Andrea R. Owen	08/22/18	—	77,447	38.15	08/22/28	16,663	591,370	28,547	1,013,133
Brian C. Walker	07/19/16	—	75,110	31.86	07/19/26			26,365	935,694
	07/18/17	—	95,988	33.75	07/18/27			27,259	967,422
Jeffrey M. Stutz	07/19/16	38,353	19,180	31.86	07/19/26	3,883	137,811	3,662	129,964
	07/18/17	7,651	15,302	33.75	07/18/27	4,508	159,989	4,346	154,240
	02/09/18					12,686	450,214		
	07/16/18	—	17,512	38.30	07/16/28	3,735	132,549	6,319	224,261
Gregory J. Bylsma	07/19/16	21,699	22,966	31.86	07/19/26	5,964	211,662	5,624	199,596
	07/18/17	9,563	19,128	33.75	07/18/27	5,634	199,951	5,432	192,782
	02/09/18					13,108	465,203		
	07/16/18	—	18,096	38.30	07/16/28	3,859	136,956	6,529	231,714
Stephen C. Gane	07/19/16	12,655	—	31.86	07/19/26			2,564	90,996
	07/18/17	4,521	—	33.75	07/18/27			1,641	58,239
	07/16/18							1,050	37,265
Jeremy J. Hocking	07/19/16	3,818	1,909	31.86	07/19/26	1,053	37,383	989	35,100
	07/18/17	3,364	6,727	33.75	07/18/27	1,991	70,660	1,911	67,821
	02/09/18					7,535	267,414		
	07/16/18	—	6,958	38.30	07/16/28	1,491	52,898	2,511	89,115
B. Ben Watson	07/18/11	7,388	—	25.75	07/18/21				
	07/17/12	9,363	—	18.17	07/17/22				
	07/19/16	27,038	13,522	31.86	07/19/26	3,270	116,060	3,084	109,451
	07/18/17	5,634	11,267	33.75	07/18/27	3,319	117,801	3,200	113,568
	02/09/18					12,122	430,194		
	07/16/18	—	12,049	38.30	07/16/28	2,569	91,182	4,347	154,275

(1) Options vest in three equal annual installments beginning on the first anniversary of the grant date.

(2) The 02/09/18 awards issued reflect credited dividends through the end of fiscal 2019 and cliff vest after two years. The remaining awards reflect credited dividends through the end of fiscal 2019 and cliff vest after three years.

(3) Assumes a stock price of \$35.49 per share, which was the closing price of a share of common stock on the last trading day of fiscal 2019.

(4) The Performance Share Unit awards cliff vest after three years, depending upon the achievement of certain adjusted EBITDA and TSR return goals. For the July 2016 equity award, the actual three-year average HMVA performance was \$181 million, which is below the \$191 million threshold, resulting in a 0% payout.

## Option Exercises and Stock Vested

This table provides information on the number and value of options exercised in fiscal 2019 and the vesting of restricted stock (on an aggregate basis).

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) <sup>(1)</sup>	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) <sup>(2)</sup>
Andrea R. Owen	—	—	—	—
Brian C. Walker	153,437	980,484	142,214	5,395,022
Jeffrey M. Stutz	2,419	31,288	5,868	227,399
Gregory J. Bylsma	28,533	208,660	22,932	888,619
Stephen C. Gane	—	—	25,884	955,964
Jeremy J. Hocking	—	—	6,818	253,857
B. Ben Watson	—	—	13,560	525,456

(1) Represents the difference between the exercise price and the fair market value of our common stock on the date of exercise.

(2) Value based on the closing market price of the company's common stock on the vesting date.

### HMVA PSUs Vesting in 2019

HMVA PSUs granted in fiscal 2016 were eligible to vest in fiscal 2019. The threshold performance level of \$191 million was not achieved. The Committee chose not to utilize their discretion to extend the performance period and, therefore, no awards vested.

## Pension Benefits

The Pension Benefits table below provides certain information regarding the retirement benefits available under the only retirement plan of the company that is not a defined contribution plan to the only NEO that participates in the plan at the end of fiscal 2019.

The retirement plan is described in the Compensation Discussion and Analysis.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
Jeremy J. Hocking <sup>(1)</sup>	Herman Miller Limited Retirement Plan	14	6,474,575	—

(1) Mr. Hocking was covered from 1990-2002 and beginning again during fiscal 2011 under the UK Pension Plan which is now frozen.



## Nonqualified Deferred Compensation

The Nonqualified Deferred Compensation table below provides certain information relating to our two compensation plans that provide for the deferral of compensation on a basis that is not tax-qualified.

Name	Executive Officer Contributions in Last Fiscal Year (\$) <sup>(1)</sup>	Registrant Contributions in Last Fiscal Year (\$) <sup>(2)</sup>	Aggregate Earnings in Last Fiscal Year (\$) <sup>(3)</sup>	Aggregate Withdrawals/Distributions (\$)	Aggregate Balance at Fiscal Year End (\$)
Andrea R. Owen	21,154	—	41	—	21,195
Brian C. Walker	94,031	—	1,092	3,390,570	—
Jeffrey M. Stutz	59,727	36,286	1,252	—	334,963
Gregory J. Bylsma	65,390	37,300	2,436	92,975	486,292
Stephen C. Gane	80,731	23,892	11,332	45,483	659,045
Jeremy J. Hocking <sup>(4)</sup>	—	—	—	—	—
B. Ben Watson	71,220	33,822	3,743	—	597,295

(1) Amounts in this column represent the deferrals of base salary earned in fiscal 2019 which are included in Summary Compensation Table under Salary, plus deferral of amounts earned in fiscal 2018 and paid in fiscal 2019 under the Annual Executive Incentive Cash Bonus Plan which was included in the fiscal 2018 Summary Compensation Table under Non-Equity Incentive Plan Compensation.

(2) Amounts in this column represent the company's contribution and are included in the "All Other Compensation" column of the Summary Compensation Table.

(3) Amounts reflect increases (decreases) in value of the employee's account during the year, based upon deemed investment of deferred amounts.

(4) Mr. Hocking is not eligible to participate in the Nonqualified Deferred Compensation plan.

The Committee approved The Herman Miller, Inc. Executive Equalization Retirement Plan for salary and incentive compensation deferrals that began in January 2008. The Plan allows all United States employees who have compensation above the statutory ceiling to defer income in the same proportion as if the statutory ceiling did not exist. The company makes contributions to the plan such that the amounts in the plan "mirror" the amounts the company would have contributed to the company's tax-qualified 401(k) plan had the employee's compensation not been above the statutory ceiling. Distributions from the plan are paid out in cash based on the deferral election specified by the participant. We do not guarantee a rate of return under the Plan. Instead, participants make investment elections for their deferrals and company contributions. Investment options are the same as those available under our 401(k) plan.

## Potential Payments upon Termination, Death, Disability, Retirement or Change in Control

The following table quantifies the estimated payments that would be made to each NEO in the event of his termination by the company without cause, in the event of his termination under circumstances that would trigger payments under change in control agreements, and upon a change in control without a termination of employment, in each case assuming that the change in control and/or termination occurred May 31, 2019.

Name	Benefit	Death	Disability	Retirement	Without Cause	Change in Control
Andrea R. Owen	Cash Severance <sup>(1)</sup>				\$1,500,000	\$6,000,000
	Prorated Annual Incentive					
	Equity					
	Restricted Stock Units <sup>(2)</sup>	591,381	591,381	—	147,845	591,381
	Performance Shares <sup>(3) (4)</sup>	337,711	—	—	—	1,583,230
	Unexercisable Options					—
	Total	929,092	591,381	—	147,845	2,174,611
	Retirement Benefits					
	Other Benefits					
	Health and Welfare <sup>(5)</sup>	—	—	—	14,569	29,139
	Outplacement	—	—	—	25,000	25,000
	Total	—	—	—	39,569	54,139
	Total	\$929,092	\$591,381	\$0	\$1,687,414	\$8,228,750
	Jeffrey M. Stutz	Cash Severance <sup>(1)</sup>				\$765,000
Prorated Annual Incentive						
Equity						
Restricted Stock Units <sup>(2)</sup>		880,564	880,564	858,472	714,960	880,564
Performance Shares <sup>(3) (4)</sup>		74,754	—	—	—	434,252
Unexercisable Options		—	—	—	—	96,249
Total		955,318	880,564	858,472	714,960	1,411,065
Retirement Benefits						
Other Benefits						
Health and Welfare <sup>(5)</sup>		—	—	—	5,143	6,858
Outplacement		—	—	—	25,000	25,000
Total		—	—	—	30,143	31,858
Total		955,318	880,564	858,472	1,510,103	3,125,923
Gregory J. Bylsma		Cash Severance <sup>(1)</sup>				\$825,000
	Prorated Annual Incentive					
	Equity					
	Restricted Stock Units <sup>(2)</sup>	1,013,770	1,013,770	990,944	825,336	1,013,770
	Performance Shares <sup>(3) (4)</sup>	77,238	—	—	—	467,063
	Unexercisable Options	—	—	—	—	116,649
	Total	1,091,008	1,013,770	990,944	825,336	1,597,482
	Retirement Benefits					
	Other Benefits					
	Health and Welfare <sup>(5)</sup>	—	—	—	23,982	31,976
	Outplacement	—	—	—	25,000	25,000
	Total	—	—	—	48,982	56,976
	Total	\$1,091,008	\$1,013,770	\$990,944	\$1,699,318	\$3,469,458

## Potential Payments upon Termination, Death, Disability, Retirement or Change in Control (continued)

Name	Benefit	Death	Disability	Retirement	Without Cause	Change in Control
Jeremy J. Hocking <sup>(6)</sup>	Cash Severance <sup>(1)</sup>				\$522,351	\$1,253,642
	Prorated Annual Incentive					
	Equity					
	Restricted Stock Units <sup>(2)</sup>	426,475	426,475	417,698	359,013	426,475
	Performance Shares <sup>(3) (4)</sup>	29,705	—	—	—	176,155
	Unexercisable Options	—	—	—	—	18,635
	Total	456,180	426,475	417,698	359,013	621,265
	Retirement Benefits					
	Other Benefits					
	Health and Welfare <sup>(5)</sup>	—	—	—	9,679	12,906
	Outplacement	—	—	—	25,000	25,000
	Total	—	—	—	34,679	37,906
	Total	\$456,180	\$426,475	\$417,698	\$916,043	\$1,912,813
	B. Ben Watson	Cash Severance <sup>(1)</sup>				\$720,000
Prorated Annual Incentive						
Equity						
Restricted Stock Units <sup>(2)</sup>		755,237	755,237	740,040	637,124	755,237
Performance Shares <sup>(3) (4)</sup>		51,425	—	—	—	302,839
Unexercisable Options		—	—	—	—	68,689
Total		806,662	755,237	740,040	637,124	1,126,765
Retirement Benefits						
Other Benefits						
Health and Welfare <sup>(5)</sup>		—	—	—	13,238	17,651
Outplacement		—	—	—	25,000	25,000
Total		—	—	—	38,238	42,651
Total		806,662	755,237	740,040	1,395,362	2,753,416

(1) "Without Cause" amount equals 18 months of base salary and "CIC" amount equals 3x (CEO) or 2x (Other NEOs) base salary + greater of prior year actual bonus or current year target bonus.

(2) Awards are not pro-rated for "Death", "Disability" and "CIC". Awards are pro-rated for "Retirement" (if granted within the past 12 months) and "Without Cause" (excluding 2018 retention awards).

(3) For "Death" (July 2018 grants), awards are pro-rated for the number of months between start of performance period and termination date. For "Disability" and "Without Cause" and "Death" (July 2016 and July 2017 grants), awards are eligible for continued vesting (i.e., no accelerated vesting) after pro-ration. For "CIC", actual shares earned are equal to target shares adjusted for actual performance. The following actual performance estimates were used: Herman Miller Value Added PSUs granted in 2016 = 0% of target, Herman Miller Value Added PSUs granted in 2017 = 55% of target, Herman Miller Value Added PSUs granted in 2018 = 129% of target, Relative TSR PSUs granted in 2018 = 193% of target.

(4) There is no accelerated vesting of performance share units or stock options under a "Retirement" scenario (awards either continue to vest or are pro-rated for time employed since grant).

(5) "Without Cause" amount equals 18 months of benefits continuation and "CIC" amount equals 36 months (CEO) or 24 months (Other NEOs) benefits continuation.

(6) Amounts provided in GBP have been converted to USD using an exchange rate of 1 GBP = 1.29938 USD.

### Potential Payments upon Termination without Change in Control

The company under its salary continuation plan has agreed to pay executive officers and other executives severance if they are terminated for reasons other than cause. The payments are equal to 18 months' base salary continuation for the NEOs. In addition, the company maintains the health insurance on such employee during the salary continuation period. In exchange for such payments, the employee provides the company with a mutual release of all claims and agrees not to work for a competitor during the salary continuation period. In the event of a termination covered by the change in control agreements described below, the payments under those agreements are reduced by any amounts received under the salary continuation plan.

## **Potential Payments upon Termination, Death, Disability, Retirement or Change in Control** *(continued)*

The Executive Long-Term Disability Plan covers 60% of the rolling two-year average of compensation executive officers are eligible to participate when they have earned over \$6,000 in annual executive incentive compensation. This benefit continues as long as the executive officer remains disabled until age 65. The monthly benefit is capped at \$10,000.

### **Potential Payments upon Termination in Connection with Change in Control**

In fiscal 2019, each NEO was party to a change in control agreement with the company. The change in control agreements are all “double trigger” agreements. This means that both these must be a change in control and the employee must incur an actual or constructive termination of employment by us to be entitled to a payment.

The agreements define change in control as having occurred (1) when a third party becomes the owner of 35 percent or more of the company's stock, (2) when a majority of the Board of Directors is composed of persons who are not recommended by the existing Board, or (3) under certain transactions involving a merger or reorganization, sale of all or substantially all of the company's assets or a liquidation in which the company does not maintain certain control thresholds.

An employee is entitled to a payment under the change in control agreement if within 2 years after a change in control he or she (1) has his or her employment with the company terminated by the company for reasons other than cause or (2) voluntarily terminates his or her employment if (a) the responsibilities of his or her job are significantly reduced, (b) the base salary or incentive he or she receives is reduced, (c) the benefits he or she receives are reduced by more than 5 percent, (d) the location of his or her job is relocated more than 50 miles from its current location, or (e) the obligations of the change in control agreements are not assumed by any successor company.

If both triggering events occur, then the NEO is entitled to a change in control payment. The change in control payment consists of three elements (1) amounts owed for current year base salary, on-target incentive prorated to the date of termination and all amounts of deferred income, (2) medical and other insurance benefits, and (3) a separation payment. In addition, all existing unvested options and other equity units become immediately vested and exercisable. The separation payment in the case of the CEO is to be equal to three times the amount described below and in the case of all other NEOs the payment is equal to two times the amount described below. The separation payment is a lump sum equal to either two or three times the sum of (a) the executive officer's base salary plus (b) the greater of the executive officer's actual incentive for the preceding year or his or her on-target incentive for the current year. This amount is reduced by any severance payment that executive officer receives under the severance benefit described above.

The company has no obligation to make a “gross up” payment to the executive officer if the amount of the payments under the change in control agreements is subject to an excise tax under Section 4999 of the Internal Revenue Code of 1986.

To receive the payments, the NEO is obligated to comply with the non-competition covenant of the agreement, committing him or her to refrain from competing with the company for a period equal to the number of years of compensation received by the NEO under the agreement.

### **Accelerated Vesting upon Death, Disability, Retirement or Change in Control**

Various compensation plans contain provisions that permit accelerated vesting upon death, disability or change in control. In the event of a change in control, the Key Executive Deferred Compensation Plan and the Executive Incentive Cash Bonus Plan provide for the acceleration of payment even if the NEO has not been terminated. In addition, the vesting of each restricted stock unit and performance share unit will accelerate upon a change in control under the terms of the award agreements. These are so-called single trigger payment provisions. These so-called single trigger payments will no longer exist starting with grants in July 2018. The Long-Term Incentive Plan, Executive Incentive Cash Bonus Plan and Key Executive Deferred Compensation Plan each has provisions dealing with vesting upon death, disability or retirement. The definition of change in control for these plans is the definition contained in Treasury Regulations for Section 409A of the Internal Revenue Code.

### **Long-Term Incentive Plan**

#### *Change in Control*

Under our 2011 Long-Term Incentive Plan, except as otherwise provided in an award agreement, awards that are outstanding at the time of a change in control transaction, will accelerate and immediately vest if (1) awards are not assumed or continued by the surviving corporation or (2) if the participant's employment is terminated without cause or by the participant with good reason within a one-year period following the change in control. However, all our award agreements for currently outstanding awards provide that the awards will vest immediately upon a change in control. Going forward starting in July 2018, all awards are double-trigger awards. Specifically, with respect to performance-based awards, if less than half the performance period has lapsed, those awards will be converted into shares or similar securities assuming target performance has been achieved. If at least half of the performance period has lapsed, those performance-based awards will be converted into shares or similar securities based upon actual performance-to-date. We quantify the benefits that each named executive officer would receive

## Potential Payments upon Termination, Death, Disability, Retirement or Change in Control *(continued)*

upon a change in control in the table under the heading "Potential Payments upon Termination, Death, Disability, Retirement or Change in Control."

### *Death, Disability and Retirement*

Options granted under the LTI Plan to the extent vested at the date of death or disability remain exercisable for the balance of their original term but not more than 60 months following the date of termination of employment. If an employee retires, the options granted prior to fiscal 2013 to the extent vested remain exercisable for the balance of their original term but not more than 60 months following the date of termination of employment. For options granted beginning in fiscal 2013, the grant will be prorated over 12 months if retiring within one year of the grant; after the initial 12 months, they will vest in full. They remain exercisable for the balance of their original term but not more than 60 months following the date of termination of employment. In all other cases, the vested options terminate three months after the termination of employment.

In the case of restricted stock units, if an employee dies or becomes disabled, units vest immediately. All vest ratably if the employee is terminated for reasons other than cause. Vesting is determined by comparing the number of months the employee has been with the company between the date of grant and the date of termination to the original vesting period. If an employee retires, units will be prorated over 12 months if retiring within one year of the grant; after the initial 12 months, they will vest in full.

Performance shares, as explained earlier, are granted at a target value and the actual number of units converted into shares is determined at the end of a 3-year measurement period. The percentage of the performance share target grant that is eligible to vest if an employee dies, becomes disabled, or is terminated for reasons other than cause is determined by comparing the number of months between the date of grant and the date of termination to the original vesting period. If an employee retires in the first year, the target performance share grant subject to vesting will be prorated over 12 months. If the employee retires after the first year, 100 percent of the target performance share grant is subject to vesting.

### ***The Annual Executive Incentive Cash Bonus Plan***

The Annual Executive Incentive Cash Bonus Plan requires that an employee be employed by the company on the last day of a fiscal year to be eligible to receive the incentive, with certain exceptions noted below. The plan provides that in the events of death, disability or retirement an employee does not need to be employed on the last day of the fiscal year to receive an incentive payout. The employee's incentive will be reduced to reflect the portion of the year that he or she was employed by the company. In the event of a change in control, the incentive is immediately vested (based upon actual results achieved through the date of the change in control) and payable and is not reduced by virtue of the fact that it is calculated upon a partial year. The same provisions governing payment in the event of death, disability, retirement or change in control are also found in the incentive plan applicable to all other employees.

## Pay Ratio

Pursuant to the SEC's guidance under Item 402(u) of Regulation S-K, we are required to disclose the annual total compensation for both our Chief Executive Officer and median employee and the ratio of those two amounts. For 2019:

- The annual total compensation of our Chief Executive Officer was \$4,245,303.
- The annual total compensation of our identified median employee was \$41,819.
- The ratio of the annual total compensation of our Chief Executive Officer to that of our identified median employee was 102 to 1.

We used the same median employee for the pay ratio in 2019 as in 2018. There was no material change in our employee population or in our employee compensation arrangements or other material change that we reasonably believe would significantly affect our pay ratio calculation. In addition, there have been no changes in the circumstances of the median employee identified for 2018 that we reasonably believe would significantly impact our pay ratio disclosure. The methodology we used to identify our median employee for the 2018 pay ratio analysis is summarized in the following table:

Item	Description
Determination Date	March 31, 2018
Employee Population	Total employee population (excluding the CEO) as of the determination date was 7,626
Consistently Applied Compensation Measure (CACM)	Gross wages, measured over the twelve-months ending on the determination date. For new hires, we annualized gross wages for any employees hired during the twelve-month period ending on March 31, 2018. For non-U.S. employees, values were converted into U.S. Dollars using the exchange rates in effect on the determination date

## Director Compensation

The following Director Compensation table provides information on the compensation of each director for fiscal 2019. The standard annual compensation of each director is \$175,000. The Audit Committee Chair receives an additional \$20,000, the Executive Compensation Committee Chair receives an additional \$15,000 and the Nominating and Governance Committee Chair receives an additional \$10,000. Non-chair members of the Audit Committee receive an additional \$8,000 per year, non-chair members of the Executive Compensation Committee receive an additional \$6,000 per year, and non-chair members of the Nominating and Governance Committee receive an additional \$4,000 per year due to the increased workload of these committees. The Chairman of the Board of Directors receives additional annual compensation of \$120,000 and is eligible to participate in the company's health insurance plan. Ms. Owen, the company's CEO, does not receive any additional compensation for serving on the Board of Directors.

The annual retainer and any chairperson or additional fees (collectively, the "Annual Fee") is payable by one or more of the following means, as selected by each director: (1) in cash; (2) in shares of our stock valued as of January 15 of each year; (3) credit under the Director Deferred Compensation Plan described below; (4) stock options valued as of January 15 of each year under the Black-Scholes Valuation Model; or (5) as a contribution to our company employee scholarship fund. Any director who does not meet the stock ownership guidelines, described below, must take at least 50 percent of his or her annual fee in one of the permissible forms of equity.

### Stock Compensation Plan

Under our 2011 Long-Term Incentive Plan, nonemployee directors may be granted options to purchase shares of our stock if they elect to receive their compensation in stock options. Subject to certain exceptions, options are not exercisable prior to the first anniversary of the award date and expire 10 years after the date of the grant. The option price is payable upon exercise in cash or, subject to certain limitations, in shares of our stock already owned by the optionee, or a combination of shares and cash.

### Deferred Compensation Plan

We also maintain a Non-employee Officer and Director Deferred Compensation Stock Purchase Plan. The Plan permits a participant to defer receipt of all or a portion of his or her Annual Fee to his or her deferred account. Each account is credited with a number of units equal to a number of shares of the investment selected by the director including company stock and other investment alternatives. The initial value of the deferral is equal to the dollar amount of the deferral, divided by the per share fair market value of the selected investment at the time of the deferral. The units are credited with any dividends paid on the investment. The company maintains a Rabbi-Trust relating to obligations under this plan.

## Director Compensation *(continued)*

### Stock Ownership Guidelines

Director stock ownership guidelines have been in effect since 1997. These guidelines, like those applicable to the management team, are intended to reinforce the importance of linking shareholder and director interests. Under these guidelines each director is encouraged to reach a minimum level of share ownership having a value of at least three times the annual director retainer over a five-year period after first becoming a director.

### Other

Directors are reimbursed for travel and other necessary business expenses incurred in the performance of their services for the company, and they are covered under the company's business travel insurance policies and under the Director and Officer Liability Insurance Policy.

### Perquisites

Some directors' spouses accompany them to Board meetings. The company pays for their expenses and for some amenities for the Directors and their spouses, including some meals and social events. The total of these perquisites is less than \$10,000 per Director. Directors are approved to purchase company products under employee discount pricing. The value of this perquisite was less than \$10,000 for all but three Directors as to whom the value has been included in All Other Compensation in the Director Compensation Table.

### Director Compensation Table

Name	Fees Earned or Paid in Cash (\$) <sup>(1)</sup>	Stock Awards (\$) <sup>(2)</sup>	All Other Compensation (\$) <sup>(3)</sup>	Total (\$)
Mary Vermeer Andringa	85,000	100,000	—	185,000
David A. Brandon	190,000	—	15,340	205,340
Douglas D. French	181,000	—	11,925	192,925
J. Barry Griswell	183,000	—	—	183,000
John R. Hoke III	179,000	—	—	179,000
Lisa A. Kro	155,000	40,000	—	195,000
Heidi J. Manheimer	90,500	90,500	—	181,000
Michael C. Smith	75,000	108,000	—	183,000
Michael A. Volkema	295,000	—	50,854	345,854

(1) The amounts shown in the "Fees Earned or Paid in Cash" column include amounts that may be deferred under the Non-employee Officer and Director Deferred Compensation Plan. Amounts deferred are retained as units associated with hypothetical investments under the plan. The plan permits non-employee directors to elect to defer amounts that they would otherwise receive as director fees. Directors at the time of deferral elect the deferral period. These amounts may also reflect contributions to the Michael Volkema Scholarship fund which awards college scholarships to children of employees. During fiscal 2019, nine of the directors who received fees contributed a portion to the fund.

(2) Amounts represent the aggregate grant date fair value of stock awards computed in accordance with FASB ASC Topic 718. The assumptions used in calculating these amounts are set forth in the company's consolidated financial statements for the fiscal year ended June 1, 2019, included in our Annual Report on Form 10-K.

(3) Represents value received on product purchases under employee discount program.

As of June 1, 2019, no member of the Board of Directors had outstanding stock options.

## Equity Compensation Plan Information

As noted in the Compensation Discussion and Analysis, we maintain certain equity compensation plans under which common stock is authorized for issuance to employees and directors in exchange for services. We maintain our 2011 Long-Term Incentive Plan (LTI Plan) and Employees' Stock Purchase Plan.

The following table sets forth certain information regarding the above referenced equity compensation plans as of June 1, 2019.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) <sup>(1)</sup>
	(a)		
Equity compensation plans approved by security holders	1,427,909	\$ 32.2333	2,920,715
Equity compensation plans not approved by security holders	—	—	
<b>Total</b>	<b>1,427,909</b>	<b>\$ 32.2333</b>	<b>2,920,715</b>

*(1) The number of shares that remain available for future issuance under our plans is 2,920,715 which includes 2,259,658 under the Long-Term Incentive Plan and 661,058 under the Employees' Stock Purchase Plan.*

## Section 16(a) Beneficial Ownership Reporting Compliance

Our directors and officers, as well as any person holding more than 10 percent of our common stock, are required to report initial statements of ownership of our securities and changes in such ownership to the SEC. Based upon written representations by each director and officer, all the reports were timely filed by such persons during the last fiscal year.

## Certain Relationships and Related Party Transactions

The Board of Directors has adopted a written policy on Related Party Transactions. Under that policy, with certain limited exceptions, all proposed transactions between the company and any directors or officers or their respective affiliates are required to be reported to the Nominating and Governance Committee prior to entering such a transaction. Management is obligated to provide the Nominating and Governance Committee with information relating to the terms and conditions of the proposed transaction, how it complies with the policy, and if the proposed transaction is with a director, advise the Nominating and Governance Committee if the transaction would impact that director's status as an independent director. The Nominating and Governance Committee has the authority to determine whether the proposed transaction is exempt from approval or, if not, whether to approve the transaction as compliant with the policy or refer the matter to the Board of Directors. All approved or exempted transactions must be reported by the Nominating and Governance Committee to the full Board of Directors.

To approve a transaction under the policy, the Nominating and Governance Committee must determine that either (1) the dollar amount of the transaction and other transactions with the director during that year is less than \$100,000 and, for any director that is a member of the Audit Committee, does not constitute a proscribed consulting, advisory, or other compensated fee, or (2) if the proposed transaction is for the acquisition of products or services and is less than \$100,000 or is subject to a bid process involving three or more competing parties, and the transaction is in the best interest of the company and its shareholders, provided that (a) management determined that the proposed transaction will provide the best value for the company, (b) the compensation is consistent with the proposals submitted by the other bidders, and (c) the director did not directly participate in the proposal process.



## Reconciliation of Non-GAAP Financial Measures

This report contains references to adjusted earnings per share ("EPS"), organic net sales, adjusted operating earnings and adjusted EBITDA, all of which are non-GAAP financial measures (referred to collectively as the "Adjusted financial measures").

Adjusted Earnings per Share, Adjusted operating earnings, and Adjusted EBITDA are calculated excluding the impact from the adoption of U.S. Tax Reform, an investment fair value adjustment, amortization of an inventory step up on the HAY equity method investment, restructuring expenses, and other special charges, including related taxes. Restructuring expenses include actions involving facilities consolidation, targeted workforce reductions and costs associated with an early retirement program. Special charges include costs related to the CEO transition, certain business structure realignment costs, and third party consulting costs related to the Company's profit enhancement initiatives.

Organic net sales represents the change in sales excluding currency translation effects, the divestiture of owned dealers, the impact of the adoption of the new revenue recognition standard, and the impact of the change in DWR shipping terms in fiscal 2018 .

The Company presents the Adjusted financial measures because we consider them to be important supplemental measures of our performance and believe them to be useful in analyzing ongoing results from operations. The adjusted financial measures are not measurements of our financial performance under GAAP and should not be considered an alternative to Earnings per share - diluted, or the Company's reported Net sales under GAAP. The Adjusted financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP. The Company's presentation of the Adjusted financial measures should not be construed as an indication that its future results will be unaffected by unusual or infrequent items. The Company compensates for these limitations by providing prominence of the GAAP results and using the Adjusted financial measures only as a supplement.

The following table reconciles EPS to Adjusted EPS for the fiscal years indicated:

	June 1, 2019	June 2, 2018
Earnings per Share - Diluted	\$ 2.70	\$ 2.12
Less: Adjustments relating to adopting U.S. Tax Cuts and Job Acts	(0.02)	(0.05)
Less: Investment fair value adjustment, after tax	(0.03)	—
Add: Special charges, after tax	0.18	0.16
Add: Inventory step-up on HAY equity method investment, after tax	0.01	—
Add: Restructuring expenses, after tax	0.13	0.07
Adjusted Earnings Per Share - Diluted	\$ 2.97	\$ 2.30
Weighted average shares outstanding (used for calculating Adjusted Earnings per share)	59,381,791	60,311,305

The following table reconciles Net Sales to Organic net sales by segment for the fiscal years ended:

	June 1, 2019				June 2, 2018			
	North America	International	Retail	Total	North America	International	Retail	Total
Net Sales, as reported	\$ 1,686.5	\$ 492.2	\$ 388.5	\$ 2,567.2	\$ 1,589.8	\$ 434.5	\$ 356.9	\$ 2,381.2
% change from PY	6.1%	13.3%	8.9%	7.8%				
<u>Proforma Adjustments</u>								
Dealer divestitures	—	—	—	—	(0.8)	—	—	(0.8)
Currency translation effects <sup>(1)</sup>	3.8	12.4	0.3	16.5	—	—	—	—
Impact of Revenue Recognition Adoption	—	—	—	—	23.9	12.3	—	36.2
Impact of Change in DWR Shipping Terms	—	—	—	—	—	—	(5.0)	(5.0)
Organic net sales	\$ 1,690.3	\$ 504.6	\$ 388.8	\$ 2,583.7	\$ 1,612.9	\$ 446.8	\$ 351.9	\$ 2,411.6
% change from PY	4.8%	12.9%	10.5%	7.1%				

<sup>(1)</sup> Currency translation effects represent the estimated net impact of translating current period sales using the average exchange rates applicable to the comparable prior year period.

## Reconciliation of Non-GAAP Financial Measures *(continued)*

The following table reconciles Operating earnings to Adjusted operating earnings by segment for the fiscal years ended:

	June 1, 2019					June 2, 2018				
	North America	International	Retail	Corporate	Total	North America	International	Retail	Corporate	Total
Operating earnings (loss)	\$ 189.7	\$ 57.8	\$ 5.3	\$ (49.3)	\$ 203.5	\$ 175.2	\$ 36.9	\$ 13.9	\$ (47.1)	\$ 178.9
% Net sales	11.2%	11.7%	1.4%		7.9%	11.0%	8.5%	3.9%		7.5%
Add: Special charges	0.6	0.2	0.8	11.5	13.1	—	2.5	—	11.3	13.8
Add: Restructuring expenses	7.7	2.5	—	—	10.2	1.8	3.9	—		5.7
Adjusted operating earnings (loss)	\$ 198.0	\$ 60.5	\$ 6.1	\$ (37.8)	\$ 226.8	\$ 177.0	\$ 43.3	\$ 13.9	\$ (35.8)	\$ 198.4
% Net Sales					8.8%					8.3%

The following table reconciles Current Year Net Income to Adjusted EBITDA used for the Annual Executive Incentive Cash Bonus Plan:

	Fiscal Year Ended June 1, 2019
(Dollars In millions)	
Current Year Net Income Attributable to HMI	\$ 160.5
<i>Standard Add Backs:</i>	
Interest Expense	12.1
Income Taxes	39.6
Depreciation and Amortization	72.1
EBITDA	284.3
<i>Standard Adjustments per Guidelines:</i>	
Amortization of previously excluded restructuring	(3.4)
Amortization of third party consulting costs	(11.3)
<i>Non-Standard Adjustments Requiring Approval:</i>	
Restructuring expense	12.3
Third party consulting costs, net of amortization	6.5
Costs associated with the CEO transition plan	4.5
Non-cash investment gain	(2.1)
Adjusted EBITDA	\$ 290.8

## Submission of Shareholder Proposals for the 2020 Annual Meeting

Shareholders wishing to submit proposals on matters appropriate for shareholder action to be presented at our 2020 Annual Meeting of Shareholders and to be included in our proxy materials for that meeting may do so in accordance with Rule 14a-8 promulgated under the Exchange Act, whereby (1) all applicable requirements of Rule 14a-8 must be satisfied, (2) the notice must include various stock ownership and related information detailed in our Bylaws, and (3) such proposals must be received by us at our principal executive offices at 855 East Main Avenue, PO Box 302, Zeeland, Michigan 49464-0302, not earlier than the close of business on the one hundred twentieth (120th) day and not later than the close of business on the ninetieth (90th) day, prior to the first anniversary of the preceding year's annual meeting.

Our bylaws, which are available on our website at [www.hermanmiller.com/bylaws](http://www.hermanmiller.com/bylaws), contain certain procedural requirements that shareholders must follow to nominate a person for election as a director at an annual meeting or to bring an item of business before the annual meeting. These procedures require that notice of an intention to nominate a person for election to the Board and/or to bring an item of business before our 2020 annual meeting must be received in writing by our Corporate Secretary at 855 East Main Avenue, PO Box 302, Zeeland, Michigan 49464-0302 no earlier than April 16, 2020 and no later than May 16, 2020. The notice must contain certain information about the shareholder making the proposal for nomination, including a representation that the shareholder intends to appear in person or by proxy at the annual meeting to nominate the person named in the notice or bring the item of business before the meeting, and about the nominee and/or the item of business and, in the case of a nomination, must be accompanied by a written consent of the proposed nominee to be named as a nominee and to serve as a director, if elected. We did not receive any proposals to be presented at the 2019 Annual Meeting.

## Miscellaneous

The cost of the solicitation of proxies will be borne by us. In addition to the use of the mails, proxies may be solicited personally or by telephone or electronic means by a few of our regular employees. We may reimburse brokers and other people holding stock in their names or in the names of nominees for their expenses in sending proxy materials to the principals and obtaining their proxies.


Our mailing for the fiscal year ended June 1, 2019, includes the Notice Regarding the Availability of Proxy Materials. A copy of the Notice of 2019 Annual Meeting of Shareholders and the 2019 Form 10-K (Annual Report) as well as the Proxy Statement, both filed with the SEC, are available, without charge, upon written request from the Secretary of the Company, 855 East Main Avenue, PO Box 302, Zeeland, Michigan 49464-0302.

Shareholders are urged to vote promptly. Questions related to your registered holdings can be directed as follows:

Computershare Investor Services, LLC, 250 Royall Street, Canton, Massachusetts 02021 Phone: 1-866-768-5723 inside the United States  
Phone: 1-781-575-2723 outside the United States <http://www.computershare.com>

*By Order of the Board of Directors*  
*Jacqueline H. Rice, General Counsel and Acting Secretary*  
*September 3, 2019*

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All other trademarks are the property of their respective owners

Annual Report

2019

Herman Miller, Inc. and Subsidiaries

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-K

- ANNUAL REPORT PURSUANT TO 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 the fiscal year ended June 1, 2019

Commission File No. 001-15141

Herman Miller, Inc.  
(Exact name of registrant as specified in its charter)

Michigan  
(State or other jurisdiction of incorporation or organization)

38-0837640  
(I.R.S. Employer Identification No.)

855 East Main Avenue  
PO Box 302  
Zeeland, Michigan  
(Address of principal executive offices)

49464-0302  
(Zip Code)

Registrant's telephone number, including area code: (616) 654 3000

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock	MLHR	NASDAQ-Global Select Market System

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 (or for such shorter period that the registrant was required to file such reports), 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 (§ 229.405 of this chapter) 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  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 Act).

Yes  No

The aggregate market value of the voting stock held by "nonaffiliates" of the registrant (for this purpose only, the affiliates of the registrant have been assumed to be the executive officers and directors of the registrant and their associates) as of December 1, 2018, was \$1,970,278,315 (based on \$33.65 per share which was the closing sale price as reported by NASDAQ).

The number of shares outstanding of the registrant's common stock, as of July 25, 2019: Common stock, \$.20 par value - 59,060,397 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on October 14, 2019, are incorporated into Part III of this report.

**Herman Miller, Inc. Form 10-K**  
**Table of Contents**

	<u>Page No.</u>
Part I	
Item 1 Business	<u>2</u>
Item 1A Risk Factors	<u>5</u>
Item 1B Unresolved Staff Comments	<u>10</u>
Item 2 Properties	<u>11</u>
Item 3 Legal Proceedings	<u>12</u>
Additional Item: Executive Officers of the Registrant	<u>12</u>
Item 4 Mine Safety Disclosures	<u>13</u>
Part II	
Item 5 Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	<u>14</u>
Item 6 Selected Financial Data	<u>16</u>
Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>17</u>
Item 7A Quantitative and Qualitative Disclosures about Market Risk	<u>37</u>
Item 8 Financial Statements and Supplementary Data	<u>39</u>
Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	<u>87</u>
Item 9A Controls and Procedures	<u>88</u>
Item 9B Other Information	<u>89</u>
Part III	
Item 10 Directors, Executive Officers, and Corporate Governance	<u>90</u>
Item 11 Executive Compensation	<u>91</u>
Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>92</u>
Item 13 Certain Relationships and Related Transactions, and Director Independence	<u>93</u>
Item 14 Principal Accountant Fees and Services	<u>94</u>
Part IV	
Item 15 Exhibits and Financial Statement Schedule	<u>95</u>
Item 16 Form 10-K Summary	<u>96</u>
Exhibit Index	<u>97</u>
Signatures	<u>100</u>
Schedule II Valuation and Qualifying Accounts	<u>101</u>

## **PART I**

### **Item 1 Business**

#### **General Development of Business**

Herman Miller's mission statement is *Inspiring Designs to Help People Do Great Things*. To this end, the Company researches, designs, manufactures, and distributes interior furnishings for use in various environments including office, healthcare, educational, and residential settings and provides related services that support organizations and individuals all over the world. Through research, the Company seeks to understand, define and clarify customer needs and problems existing in its markets and to design products, systems and services that serve as innovative solutions to such needs and problems. The Company's products are sold primarily through the following channels: Owned and independent contract furniture dealers, direct customer sales, owned and independent retailers, direct-mail catalogs, and the Company's online stores.

The Company was incorporated in Michigan in 1905. The global design leader has since established Herman Miller Group, a family of brands that collectively offers a variety of products for environments where people live, learn, work, and heal. The family of brands includes Herman Miller®, Design Within Reach®, Geiger®, Maharam®, Nemschoff®, Colebrook Bosson Saunders®, naughtone®, Maars® Living Walls, and HAY®. Herman Miller's corporate offices are located at 855 East Main Avenue, PO Box 302, Zeeland, Michigan, 49464-0302, and its telephone number is (616) 654-3000. Unless otherwise noted or indicated by the context, all references to "Herman Miller," "we," "our," "Company" and similar references are to Herman Miller, Inc., its predecessors, and controlled subsidiaries. Further information relating to principles of consolidation is provided in Note 1 to the Consolidated Financial Statements included in Item 8 of this report.

#### **Financial Information about Segments**

Information relating to segments is provided in Note 14 to the Consolidated Financial Statements included in Item 8 of this report.

#### **Narrative Description of Business**

The Company's principal business consists of the research, design, manufacture, selling and distribution of seating products, office furniture systems, other freestanding furniture elements, textiles, home furnishings and related services.

The Company's ingenuity and design excellence create award-winning products and services, which have made the Company a leader in the design and development of furniture, furniture systems, textiles and technology solutions. This leadership is exemplified by the innovative concepts introduced by the company in its broad array of seating products (including Embody®, Aeron®, Mirra2™, Setu®, Sayl®, Verus®, Cosm®, Lino®, Verus®, Celle®, Equa®, Taper™ and Ergon® office chairs) and modular systems (including Canvas Office Landscape®, Locale®, Public Office Landscape®, Layout Studio®, Action Office®, Ethospace®, Arras®, Prospect®, Overlay™ and Resolve®). The company also offers storage (including Meridian® and Tu® products), wood casegoods (including Geiger® products), freestanding furniture products (including Abak™, Intent®, Sense™ and Envelop®), healthcare products (including Palisade™, Compass™, Nala®, Ava® and other Nemschoff® products), the Thrive portfolio of ergonomic solutions, ergonomic and technology support products (including Colebrook Bosson Saunders® products) and the textiles of Maharam Fabric Corporation (Maharam®). The Live Platform™ system of cloud-connected furnishings, applications and dashboards provides data-enabled solutions for the Company's customers.

The Company also offers products for residential settings, including Eames®, Eames (lounge chair configuration)®, Eames (management chair configuration)®, Eames Soft Pad™, HAY®, Nelson™ basic cabinet series, Nelson™ end table, Nelson™ lanterns, Nelson™ marshmallow sofa, Nelson™ miniature chests, Nelson™ platform bench, Nelson™ swag leg group, Nelson™ tray table, Bubble Lamps®, Airia™, Ardea®, Bumper™, Burdick Group™, Everywhere™ tables, Claw™, Caper®, Distil™, Envelope™, Formwork®, Full Round™, H Frame™, I Beam™, Landmark™, Logic Mini™, Logic Power Access Solutions™, Renew™, Rolled Arm™, Scissor™, Sled™, Soft Pad™, Swoop™, Tone™, Twist™, Ward Bennett™ and Wireframe™.

The Company's products are marketed worldwide by its own sales staff, independent dealers and retailers, its owned dealers, via its e-commerce websites and through its owned Design Within Reach ("DWR") and HAY retail studios. Salespeople work with dealers, the architecture and design community, and directly with end-users. Independent dealerships concentrate on the sale of Herman Miller products and some complementary product lines of other manufacturers. It is estimated that approximately 69 percent of the Company's sales in the fiscal year ended June 1, 2019, were made to or through independent dealers. The remaining sales were made directly to end-users, including federal, state and local governments and several business organizations by the Company's own sales staff, its owned dealer network, its retail channels or independent retailers.

The Company is a recognized leader within its industry for the use, development and integration of customer-centered technologies that enhance the reliability, speed and efficiency of our customers' operations. This includes proprietary sales tools, interior design and product specification software; order entry and manufacturing scheduling and production systems; and direct connectivity to the Company's suppliers.



The Company's furniture systems, seating, freestanding furniture, storage, casegood and textile products, and related services are used in (1) institutional environments including offices and related conference, lobby, and lounge areas and general public areas including transportation terminals; (2) health/science environments including hospitals, clinics and other healthcare facilities; (3) industrial and educational settings; and (4) residential and other environments.

#### *Raw Materials*

The Company's manufacturing materials are available from a significant number of sources within North America, South America, Europe and Asia. To date, the Company has not experienced any difficulties in obtaining its raw materials. The costs of certain direct materials used in the Company's manufacturing and assembly operations are sensitive to shifts in commodity market prices. In particular, the costs of steel, plastic, aluminum components and particleboard are sensitive to the market prices of commodities such as raw steel, aluminum, crude oil, lumber and resins. Increases in the market prices for these commodities can have an adverse impact on the Company's profitability. Further information regarding the impact of direct material costs on the Company's financial results is provided in Management's Discussion and Analysis in Item 7 of this report, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

#### *Patents, Trademarks, Licenses, Etc.*

The Company has active utility and design patents in the United States. Many of the inventions covered by these patents also have been patented in a number of foreign countries. Various trademarks, including the name and stylized "Herman Miller" and the "Herman Miller Circled Symbolic M" trademark are registered in the United States and many foreign countries. The Company does not believe that any material part of its business depends on the continued availability of any one or all of its patents or trademarks, or that its business would be materially adversely affected by the loss of any such marks, except for the following trademarks: Herman Miller®, Herman Miller Circled Symbolic M®, Maharam®, Geiger®, Design Within Reach®, DWR®, Nemschoff®, Action Office®, Living Office®, Ethospace®, Aeron®, Mirra®, Embody®, Setu®, Sayl®, Cosm®, Eames®, PostureFit®, Meridian®, and Canvas Office Landscape®.

#### *Working Capital Practices*

Information concerning the Company's inventory levels relative to its sales volume can be found under the *Executive Overview* section in Item 7 of this report "Management's Discussion and Analysis of Financial Condition and Results of Operations". Beyond this discussion, the Company does not believe that it or the industry in general has any special practices or special conditions affecting working capital items that are significant for understanding the Company's business.

#### *Customer Base*

The Company estimates that no single dealer accounted for more than 5 percent of the Company's net sales in the fiscal year ended June 1, 2019. The Company estimates that the largest single end-user customer accounted for \$129.6 million, \$109.8 million and \$102.3 million of the Company's net sales in fiscal 2019, 2018, and 2017, respectively. This represents approximately 5 percent of the Company's net sales in fiscal 2019, 2018 and 2017. The Company's 10 largest customers in the aggregate accounted for approximately 18 percent, 19 percent, and 18 percent of net sales in fiscal 2019, 2018, and 2017, respectively.

#### *Backlog of Unfilled Orders*

As of June 1, 2019, the Company's backlog of unfilled orders was \$394.2 million. At June 2, 2018, the Company's backlog totaled \$350.7 million. It is expected that substantially all the orders forming the backlog at June 1, 2019, will be filled during the next fiscal year. Many orders received by the Company are reflected in the backlog for only a short period while other orders specify delayed shipments and are carried in the backlog for up to one year. Accordingly, the amount of the backlog at any particular time does not necessarily indicate the level of net sales for a particular succeeding period.

#### *Government Contracts*

Other than standard provisions contained in contracts with the United States Government, the Company does not believe that any significant portion of its business is subject to material renegotiation of profits or termination of contracts or subcontracts at the election of various government entities. The Company sells to the U.S. Government both through a General Services Administration ("GSA") Multiple Award Schedule Contract and through competitive bids. The GSA Multiple Award Schedule Contract pricing is principally based upon the Company's commercial price list in effect when the contract is initiated, rather than being determined on a cost-plus-basis. The Company is required to receive GSA approval to apply list price increases during the term of the Multiple Award Schedule Contract period.

#### *Competition*

All aspects of the Company's business are highly competitive. From an office furniture perspective, the Company competes largely on design, product and service quality, speed of delivery and product pricing. Although the Company is one of the largest office furniture manufacturers in the world, it competes with manufacturers that have significant resources and sales as well as many smaller companies. The Company's most significant competitors are Haworth, HNI Corporation, Kimball International, Knoll and Steelcase.

The Company also competes in the home furnishings industry, primarily against national, regional and independent home furnishings retailers who market high-craft furniture to end-user customers and the interior design community. These competitors include companies such as Restoration Hardware and Wayfair. Similar to its office furniture product offerings, the Company competes primarily on design, product and service quality, speed of delivery and product pricing in this consumer market.

#### *Research, Design and Development*

The Company believes it draws great competitive strength from its research, design and development programs. Through research, the Company seeks to understand, define and clarify customer needs and problems they are trying to solve. The Company designs innovative products and services that address customer needs and solve their problems. The Company uses both internal and independent research resources and independent design resources. Exclusive of royalty payments, the Company spent approximately \$58.8 million, \$57.1 million and \$58.6 million on research and development activities in fiscal 2019, 2018 and 2017, respectively. Generally, royalties are paid to designers of the Company's products as the products are sold and are included in the Design and Research line item within the Consolidated Statements of Comprehensive Income.

#### *Environmental Matters*

For over 50 years, respecting the environment has been more than good business practice for the Company - it is the right thing to do. The Company's 10-year sustainability strategy - Earthright - begins with three principles: positive transparency, products as living things and becoming greener together. The Company's goals are focused around the smart use of resources, eco-inspired design and being community driven. Based on current facts known to management, the Company does not believe that existing environmental laws and regulations have had or will have any material effect upon the capital expenditures, earnings or competitive position of the Company. However, there can be no assurance that environmental legislation and technology in this area will not result in or require material capital expenditures or additional costs to our manufacturing process.

#### *Human Resources*

The Company considers its employees to be another of its major competitive strengths. The Company stresses individual employee participation and incentives, believing that this emphasis has helped attract and retain a competent and motivated workforce. The Company's human resources group provides employee recruitment, education and development, as well as compensation planning and counseling. Additionally, there have been no work stoppages or labor disputes in the Company's history. As of June 1, 2019, approximately 5 percent of the Company's employees are covered by collective bargaining agreements, most of whom are employees of its Nemschoff and Herman Miller Holdings Limited subsidiaries.

As of June 1, 2019, the Company had approximately 8,000 employees, representing a 4 percent increase as compared with June 2, 2018. In addition to its employee workforce, the Company uses temporary labor to meet uneven demand in its manufacturing operations.

#### **Information about International Operations**

The Company's sales in international markets are made primarily to office/institutional customers. Foreign sales consist mostly of office furniture products such as Aeron®, Mirra®, Sayl®, Setu®, Layout Studio®, Imagine Desking System®, Ratio®, other seating and storage products and ergonomic accessories such as the Flo® monitor arm. The Company conducts business in the following major international markets: Canada, Europe, the Middle East, Africa, Latin America and the Asia/Pacific region.

The Company's products currently sold in international markets are manufactured by wholly owned subsidiaries in the United States, the United Kingdom, China, Brazil and India. Sales are made through wholly owned subsidiaries or branches in Canada, Japan, Korea, Mexico, Australia, Singapore, China (including Hong Kong), India and Brazil. The Company's products are offered in Canada, Europe, the Middle East, Africa, Latin America and the Asia/Pacific region through dealers.

Additional information with respect to operations by geographic area appears in Note 14 of the Consolidated Financial Statements included in Item 8 of this report. Fluctuating exchange rates and factors beyond the control of the Company, such as tariff and foreign economic policies, may affect future results of international operations. Refer to Item 7A, *Quantitative and Qualitative Disclosures about Market Risk*, for further discussion regarding the Company's foreign exchange risk.

#### **Available Information**

The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are made available free of charge through the "Investors" section of the Company's internet website at [www.hermanmiller.com](http://www.hermanmiller.com), as soon as practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). The Company's filings with the SEC are also available for the public to read via the SEC's internet website at [www.sec.gov](http://www.sec.gov). You may read and copy any materials we file with the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

## Item 1A Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face; others, either unforeseen or currently deemed less significant, may also have a negative impact on our Company. If any of the following occurs, our business, operating results, cash flows, and financial condition could be materially adversely affected.

### ***We may not be successful in implementing and managing our growth strategy.***

We have established a growth strategy for the business based on a changing and evolving world. Through this strategy we are focused on taking advantage of the changing composition of the office floor plate, the greater desire for customization from our customers, new technologies and trends towards urbanization.

To that end, we intend to grow in certain targeted ways. First, we will unlock the power of *One Herman Miller* by building an agile, collaborative, globally-connected organization fit for continuous evolution. This will also include simplifying and tailoring our go-to-market approach, as well as continuing to lead in product innovation across all businesses. Second, we intend to build a customer-centric, digitally enabled business model by leveraging our deep understanding of customer journeys to deliver inspired products and frictionless customer experiences. Inclusive of this will be to drive step-change in our data, analytics, marketing, and brand capabilities, as well as to strengthen our core technology backbone. Third, we intend to accelerate profitable growth by strengthening and evolving our core contract business, driving outsized growth in our international business, and expanding our retail business. Finally, we believe it is a business imperative to reinforce our commitment to our people, planet and communities in a more integrated way than ever before. Beyond simply being the right thing to do, we are confident that elevating our focus on positive social and environmental business practices will positively impact our customers and enhance returns for our shareholders over the long term.

While we have confidence that our strategic plan reflects opportunities that are appropriate and achievable and that we have anticipated and will manage the associated risks, there is the possibility that the strategy may not deliver the projected results due to inadequate execution, incorrect assumptions, sub-optimal resource allocation, or changing customer requirements.

To meet these goals, we believe we will be required to continually invest in the research, design, and development of new products and services, and there is no assurance that such investments will have commercially successful results.

Certain growth opportunities may require us to invest in acquisitions, alliances, and the startup of new business ventures. These investments, if available, may not perform according to plan and may involve the assumption of business, operational, or other risks that are new to our business.

Future efforts to expand our business within developing economies, particularly within China and India, may expose us to the effects of political and economic instability. Such instability may impact our ability to compete for business. It may also put the availability and/or value of our capital investments within these regions at risk. These expansion efforts expose us to operating environments with complex, changing, and in some cases, inconsistently-applied legal and regulatory requirements. Developing knowledge and understanding of these requirements poses a significant challenge and failure to remain compliant with them could limit our ability to continue doing business in these locations.

Pursuing our strategic plan in new and adjacent markets, as well as within developing economies, will require us to find effective new channels of distribution. There is no assurance that we can develop or otherwise identify these channels of distribution.

### ***Tariffs imposed by the U.S. government could have a material adverse effect on our results of operations.***

The imposition of tariffs by the U.S. government on various products imported from certain countries, as well as countering tariffs on the export of U.S. goods, has and will likely continue to adversely impact the cost of certain of our raw materials and finished goods as well as products that we export to other countries. Accordingly, these tariffs and the possibility of broader trade conflicts stemming from the tariffs could negatively impact our business in the future. The tariffs on imports, most notably imports from China, also impacted the cost of steel in fiscal year 2019, a key commodity that we consume in producing products. Given the significance of steel costs to our direct materials costs, we are closely monitoring escalating trade tensions between the U.S. and China. That said, the potential impact to our direct material costs due to tariffs on Chinese imports is somewhat limited, as purchases of direct materials (mainly component parts and products manufactured by third parties) from China represented an estimated 5% of our consolidated cost of sales for fiscal 2019. Going forward, continued or increased tariffs could negatively impact our gross margin and operating performance. These factors also have the potential to significantly impact global trade and economic conditions in many of the regions where we do business.

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

Customer demand within the contract office furniture industry is affected by various macro-economic factors; general corporate profitability, service sector employment levels, new office construction rates, and existing office vacancy rates are among the most influential factors. History has shown that declines in these measures can have an adverse effect on overall office furniture demand. Additionally, factors and changes specific to our industry, such as developments in technology, governmental standards and regulations, and health and safety issues can influence demand. There are current and future economic and industry conditions that could adversely affect our business, operating results, or financial condition.

Other macroeconomic developments, such as 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.

***The markets in which we operate are highly competitive and we may not be successful in winning new business.***

We are one of several companies competing for new business within the furniture industry. Many of our competitors offer similar categories of products, including office seating, systems and freestanding office furniture, casegoods, storage as well as residential, education and healthcare furniture solutions. Although we believe that our innovative product design, functionality, quality, depth of knowledge, and strong network of distribution partners differentiate us in the marketplace, increased market pricing pressure could make it difficult for us to win new business with certain customers and within certain market segments at acceptable profit margins.

The retail furnishings market is highly competitive. We compete with national and regional furniture retailers and department stores. In addition, we compete with mail order catalogs and online retailers focused on home furnishings. We compete with these and other retailers for customers, suitable retail locations, vendors, qualified employees, and management personnel. Some of our competitors have significantly greater financial, marketing and other resources than we possess. This may result in our competitors being quicker at the following: adapting to changes, devoting greater resources to the marketing and sale of their products, generating greater national brand recognition, or adopting more aggressive pricing and promotional policies, including free shipping offers. In addition, increased catalog mailings and/or digital marketing campaigns by our competitors may adversely affect response rates to our own marketing efforts. As a result, increased competition may adversely affect our future financial performance.

***Our business presence outside the United States exposes us to certain risks that could negatively affect our results of operations and financial condition.***

We have significant manufacturing and sales operations in the United Kingdom, which represents our largest marketplace outside the United States. We also have manufacturing operations in China, India and Brazil. Additionally, our products are sold internationally through wholly owned subsidiaries or branches in Canada, Japan, Korea, Mexico, Australia, Singapore, China (including Hong Kong), India and Brazil. The Company's products are offered in Europe, the Middle East, Africa, Latin America and the Asia/Pacific region through dealers.

Doing business internationally exposes us to certain risks, many of which are beyond our control and could potentially impact our ability to design, develop, manufacture, or sell products in certain countries. These factors could include, but would not necessarily be limited to:

- Political, social, and economic conditions
- Global trade conflicts and trade policies
- Legal and regulatory requirements
- Labor and employment practices
- Cultural practices and norms
- Natural disasters
- Security and health concerns
- Protection of intellectual property
- Changes in foreign currency exchange rates

In some countries, the currencies in which we import and export products can differ. Fluctuations in the rate of exchange between these currencies could negatively impact our business and our financial performance. Additionally, tariff and import regulations, international tax policies and rates, and changes in U.S. and international monetary policies may have an adverse impact on results of operations and financial condition.

***We are subject to risks and costs associated with protecting the integrity and security of our systems and confidential information.***

We collect certain customer-specific data, including credit card information, in connection with orders placed through our e-commerce websites, direct-mail catalog marketing program, and retail studios. For these sales channels to function and develop successfully, we and other parties involved in processing customer transactions must be able to transmit confidential information, including credit card information and other personal information regarding our customers, securely over public and private networks. Third parties may have or develop the technology or knowledge to breach, disable, disrupt or interfere with our systems or processes or those of our vendors. Although we take the security of our systems and the privacy of our customers' personal information seriously and we believe we take reasonable steps to protect the security and confidentiality of the information we collect, we cannot guarantee that our security measures will effectively prevent others from obtaining unauthorized access to our information and our customers' information. The techniques used to obtain unauthorized access to systems change frequently and are not often recognized until after they have been launched.

Any person who circumvents our security measures could destroy or steal valuable information or disrupt our operations. Any security breach could cause consumers to lose confidence in the security of our information systems, including our e-commerce websites or retail studios and choose not to purchase from us. Any security breach could also expose us to risks of data loss, litigation, regulatory investigations, and other significant liabilities. Such a breach could also seriously disrupt, slow or hinder our operations and harm our reputation and customer relationships, any of which could harm our business.

A security breach includes a third party wrongfully gaining unauthorized access to our systems for the purpose of misappropriating assets or sensitive information, loading corrupting data, or causing operational disruption. These actions may lead to a significant disruption of the Company's IT systems and/or cause the loss of business and business information resulting in an adverse business impact, including: (1) an adverse impact on future financial results due to theft, destruction, loss misappropriation, or release of confidential data or intellectual property; (2) operational or business delays resulting from the disruption of IT systems, and subsequent clean-up and mitigation activities; and (3) negative publicity resulting in reputation or brand damage with customers, partners or industry peers.

In addition, states and the federal government are increasingly enacting laws and regulations to protect consumers against identity theft. Also, as our business expands globally, we are subject to data privacy and other similar laws in various foreign jurisdictions. If we are the target of a cybersecurity attack resulting in unauthorized disclosure of our customer data, we may be required to undertake costly notification procedures. Compliance with these laws will likely increase the costs of doing business. If we fail to implement appropriate safeguards or to detect and provide prompt notice of unauthorized access as required by some of these laws, we could be subject to potential fines, claims for damages and other remedies, which could harm our business.

***A sustained downturn in the economy could adversely impact our access to capital.***

The disruptions in the global economic and financial markets of the last decade adversely impacted the broader financial and credit markets, at times reducing the availability of debt and equity capital for the market as a whole. Conditions such as these could re-emerge in the future. Accordingly, our ability to access the capital markets could be restricted at a time when we would like, or need, to access those markets, which could have an adverse impact on our flexibility to react to changing economic and business conditions. The resulting lack of available credit, increased volatility in the financial markets and reduced business activity could materially and adversely affect our business, financial condition, results of operations, our ability to take advantage of market opportunities and our ability to obtain and manage our liquidity. In addition, the cost of debt financing and the proceeds of equity financing may be materially and adversely impacted by these market conditions. The extent of any impact would depend on several factors, including our operating cash flows, the duration of tight credit conditions and volatile equity markets, our credit capacity, the cost of financing, and other general economic and business conditions. Our credit agreements contain performance covenants, such as a limit on the ratio of debt to earnings before interest, taxes, depreciation and amortization, and limits on subsidiary debt and incurrence of liens. Although we believe none of these covenants is currently restrictive to our operations, our ability to meet the financial covenants can be affected by events beyond our control.

***Disruptions in the supply of raw and component materials could adversely affect our manufacturing and assembly operations.***

We rely on outside suppliers to provide on-time shipments of the various raw materials and component parts used in our manufacturing and assembly processes. The timeliness of these deliveries is critical to our ability to meet customer demand. Any disruptions in this flow of delivery may have a negative impact on our business, results of operations, and financial condition.

***Increases in the market prices of manufacturing materials may negatively affect our profitability.***

The costs of certain manufacturing materials used in our operations are sensitive to shifts in commodity market prices, include the impact of the U.S. and retaliatory tariffs previously noted. In particular, the costs of steel, plastic, aluminum components, and particleboard are sensitive to the market prices of commodities such as raw steel, aluminum, crude oil, lumber, and resins. Increases in the market prices of these commodities, such as what we experienced earlier in fiscal 2019 for steel, may have an adverse impact on our profitability if we are unable to offset them with strategic sourcing, continuous improvement initiatives or increased prices to our customers.

***Disruptions within our dealer network could adversely affect our business.***

Our ability to manage existing relationships within our network of independent dealers is crucial to our ongoing success. Although the loss of any single dealer would not have a material adverse effect on the overall business, our business within a given market could be negatively impacted by disruptions in our dealer network caused by the termination of commercial working relationships, ownership transitions, or dealer financial difficulties.

If dealers go out of business or restructure, we may suffer losses because they may not be able to pay for products already delivered to them. Also, dealers may experience financial difficulties, creating the need for outside financial support, which may not be easily obtained. In the past, we have, on occasion, agreed to provide direct financial assistance through term loans, lines of credit, and/or loan guarantees to certain dealers. Those activities increase our financial exposure.

***We are unable to control many of the factors affecting consumer spending. Declines in consumer spending on furnishings could reduce demand for our products.***

The operations of our Retail segment are sensitive to a number of factors that influence consumer spending, including general economic conditions, consumer disposable income, unemployment, inclement weather, availability of consumer credit, consumer debt levels, conditions in the housing market, interest rates, sales tax rates and rate increases, inflation, and consumer confidence in future economic conditions. Adverse changes in these factors may reduce consumer demand for our products, resulting in reduced sales and profitability.

***A number of factors that affect our ability to successfully implement our retail studio strategy, including opening new locations and closing existing studios, are beyond our control. These factors may harm our ability to increase the sales and profitability of our retail operations.***

Approximately 50 percent of the sales within our Retail segment are transacted within our retail studios. Additionally, we believe our retail studios have a direct influence on the volume of business transacted through other channels, including our consumer e-commerce and direct-mail catalog platforms, as many customers utilize these physical spaces to view and experience products prior to placing an order online or through the catalog call center. Our ability to open additional studios or close existing studios successfully will depend upon a number of factors beyond our control, including:

- General economic conditions
- Identification and availability of suitable studio locations
- Success in negotiating new leases and amending or terminating existing leases on acceptable terms
- The success of other retailers in and around our retail locations
- Ability to secure required governmental permits and approvals
- Hiring and training skilled studio operating personnel
- Landlord financial stability

***Increasing competition for highly skilled and talented workers could adversely affect our business.***

The successful implementation of our business strategy depends, in part, on our ability to attract and retain a skilled workforce. The increasing competition for highly skilled and talented employees could result in higher compensation costs, difficulties in maintaining a capable workforce, and leadership succession planning challenges.

***Costs related to product defects could adversely affect our profitability.***

We incur various expenses related to product defects, including product warranty costs, product recall and retrofit costs, and product liability costs. These expenses relative to product sales vary and could increase. We maintain reserves for product defect-related costs based on estimates and our knowledge of circumstances that indicate the need for such reserves. We cannot, however, be certain that these reserves will be adequate to cover actual product defect-related claims in the future. Any significant increase in the rate of our product defect expenses could have a material adverse effect on operations.

***We are subject to risks associated with self-insurance related to health benefits.***

We are self-insured for our health benefits and maintain per employee stop loss coverage; however, we retain the insurable risk at an aggregate level. Therefore unforeseen or catastrophic losses in excess of our insured limits could have a material adverse effect on the Company's financial condition and operating results. See Note 1 of the Consolidated Financial Statements for information regarding the Company's retention level.

***Government and other regulations could adversely affect our business.***

Government and other regulations apply to the manufacture and sale of many of our products. Failure to comply with these regulations or failure to obtain approval of products from certifying agencies could adversely affect the sales of these products and have a material negative impact on operating results.

## Item 1B Unresolved Staff Comments

None



## Item 2 Properties

The Company owns or leases facilities located throughout the United States and several foreign countries. The location, square footage and use of the most significant facilities at June 1, 2019 were as follows:

<b><u>Owned Locations</u></b>	<b><u>Square Footage</u></b>	<b><u>Use</u></b>
Zeeland, Michigan	770,800	Manufacturing, Warehouse, Office
Spring Lake, Michigan	582,800	Manufacturing, Warehouse, Office
Holland, Michigan	357,400	Warehouse
Holland, Michigan	293,100	Manufacturing, Office
Dongguan, China*	269,000	Manufacturing, Office
Holland, Michigan	238,200	Office, Design
Sheboygan, Wisconsin	207,700	Manufacturing, Warehouse, Office
Melksham, United Kingdom	170,000	Manufacturing, Warehouse, Office
Hildebran, North Carolina	93,000	Manufacturing, Office

<b><u>Leased Locations</u></b>	<b><u>Square Footage</u></b>	<b><u>Use</u></b>
Batavia, Ohio**	617,600	Warehouse
Dongguan, China*	429,300	Manufacturing, Office
Hebron, Kentucky**	423,700	Warehouse
Atlanta, Georgia	180,200	Manufacturing, Warehouse, Office
Bangalore, India	104,800	Manufacturing, Warehouse
Yaphank, New York	92,000	Warehouse, Office
New York City, New York	66,600	Office, Retail
Hong Kong, China	54,400	Warehouse
Brooklyn, New York	39,400	Warehouse, Retail
Stamford, Connecticut	35,300	Office, Retail

As of June 1, 2019, the Company leased 39 retail studios (including 36 operating under the DWR brand, 2 under the HAY brand, and a Herman Miller Flagship store in New York) that totaled approximately 400,000 square feet of selling space. The Company also maintains administrative and sales offices and showrooms in various other locations throughout North America, Europe, Asia/Pacific and Latin America. The Company considers its existing facilities to be in good condition and adequate for its design, production, distribution, and selling requirements.

\* On March 14, 2018, the Company announced a facilities consolidation plan related to its China Manufacturing facilities. Plans are underway to close and consolidate the owned and leased Dongguan facilities into a new leased facility in Dongguan. The Company expects the facilities consolidation to be completed by the first quarter of fiscal 2020.

\*\* In fiscal 2019, the Company began the transition of its leased Hebron, Kentucky distribution center to a new leased distribution center in Batavia, Ohio. The Company expects the transition to be completed by the second quarter of fiscal 2020.

### Item 3 Legal Proceedings

The Company is 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 operations, cash flows and financial condition.

#### Additional Item: Executive Officers of the Registrant

Certain information relating to Executive Officers of the Company as of June 1, 2019 is as follows:

Name	Age	Year Elected an Executive Officer	Position with the Company
Andrea R. Owen	54	2018	President and Chief Executive Officer
Jeremy Hocking	58	2017	President, International Contract
Gregory J. Bylsma	54	2009	President, North America Contract
Jeffrey M. Stutz	48	2009	Chief Financial Officer
B. Ben Watson	54	2010	Chief Creative Officer
Jacqueline H. Rice	47	2019	General Counsel
John McPhee	56	2015	President, Retail
Kevin Veltman	44	2015	Vice President, Investor Relations & Treasurer
Jeffrey L. Kurburski	52	2018	Chief Technology Officer
Benjamin P.T. Groom	35	2019	Chief Digital Officer
Leander D. LeSure	53	2019	Chief Human Resource Officer
Megan Lyon	39	2019	Chief Strategy Officer

Except as discussed below, each of the named officers has served the Company in an executive capacity for more than five years.

Mr. McPhee joined Herman Miller, Inc. in 2015 in connection with the Company's acquisition of DWR. Prior to that, he served in various roles at DWR including Chief Operating Officer and President from 2010. Mr. McPhee previously held senior management positions with Edelman Leather, Candie's, Inc. and Sam & Libby, Inc.

Mr. Veltman joined Herman Miller, Inc. in 2014 and serves as Vice President - Investor Relations and Treasurer. Prior to joining Herman Miller, he spent 8 years at BISSELL, Inc. most recently as Vice President - Finance.

Ms. Owen joined Herman Miller, Inc. in 2018 and serves as President and Chief Executive Officer. Prior to joining Herman Miller, Ms. Owen spent twenty-five years at The Gap, Inc. where she most recently served as Global President of Banana Republic.

Mr. Groom joined Herman Miller, Inc. in 2019 and serves as Chief Digital Officer. Prior to joining Herman Miller, Mr. Groom spent six years with The Boston Consulting Group where he was a Principal member of the firm's Technology Advantage, Retail and Consumer practices.

Ms. Rice joined Herman Miller, Inc. in 2019 and serves as General Counsel. Prior to joining Herman Miller, Ms. Rice served as Executive Vice President, Chief Risk & Compliance Officer at Target Corporation as well as Senior Counsel and Chief Compliance Officer at General Motors Co.

Mr. LeSure joined Herman Miller, Inc. in 2019 and serves as Chief Human Resources Officer. Prior to joining Herman Miller, Mr. LeSure served as the Chief Human Resources Officer at Getty Images, Inc. He also served in Human Resource Leadership roles at Western Union and American Express.

Ms. Lyon joined Herman Miller, Inc. in 2019 and serves as Chief Strategy Officer. Prior to joining Herman Miller, Ms. Lyon spent eleven years with The Boston Consulting Group where she was a Partner and Managing Director leading the firm's West Coast Consumer and Retail Practice.

There are no family relationships between or among the above-named executive officers. There are no arrangements or understandings between any of the above-named officers pursuant to which any of them was named an officer.

#### Item 4 Mine Safety Disclosures

Not applicable

## PART II

### Item 5 Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

#### Share Price, Earnings, and Dividends Summary

Herman Miller, Inc. common stock is traded on the NASDAQ-Global Select Market System (Symbol: MLHR). As of July 25, 2019, there were approximately 33,000 record holders, including individual participants in security position listings, of the Company's common stock.

The high and low market prices of the Company's common stock, dividends and diluted earnings per share for each quarterly period during the past two years were as follows:

Per Share and Unaudited	Market Price High (at close)	Market Price Low (at close)	Market Price Close	Earnings Per Share-Diluted	Dividends Declared Per Share
Year ended June 1, 2019:					
First quarter	\$ 40.10	\$ 32.75	\$ 38.30	\$ 0.60	\$ 0.1975
Second quarter	40.65	31.38	33.86	0.66	0.1975
Third quarter	37.62	28.66	36.89	0.66	0.1975
Fourth quarter	39.70	33.94	35.49	0.78	0.1975
Year	\$ 40.65	\$ 28.66	\$ 35.49	\$ 2.70	\$ 0.7900
Year ended June 2, 2018:					
First quarter	\$ 35.30	\$ 29.25	\$ 34.00	\$ 0.55	\$ 0.1800
Second quarter	37.00	32.05	34.55	0.55	0.1800
Third quarter	41.84	33.65	36.75	0.49	0.1800
Fourth quarter	39.20	29.95	32.85	0.53	0.1800
Year	\$ 41.84	\$ 29.25	\$ 32.85	\$ 2.12	\$ 0.7200

Dividends were declared and paid quarterly during fiscal 2019 and 2018 as approved by the Board of Directors.

On June 26, 2019 the company's board of directors approved an increase in the quarterly dividend up to \$0.21 per share. The payment will be made on October 15, 2019 to shareholders of record at the close of business on August 31, 2019. While it is anticipated that the Company will continue to pay quarterly cash dividends, the amount and timing of such dividends is subject to the discretion of the Board depending on the Company's future results of operations, financial condition, capital requirements and other relevant factors.

#### Issuer Purchases of Equity Securities

The following is a summary of share repurchase activity during the Company's fourth fiscal quarter ended June 1, 2019:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share or Unit	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs <sup>(1)</sup>
3/3/19-3/30/19	11,253	34.95	11,253	\$ 268,232,481
3/31/19-4/27/19	60,815	36.61	60,815	\$ 266,006,033
4/28/19-6/1/19	47,498	37.56	47,498	\$ 264,222,017
Total	119,566		119,566	

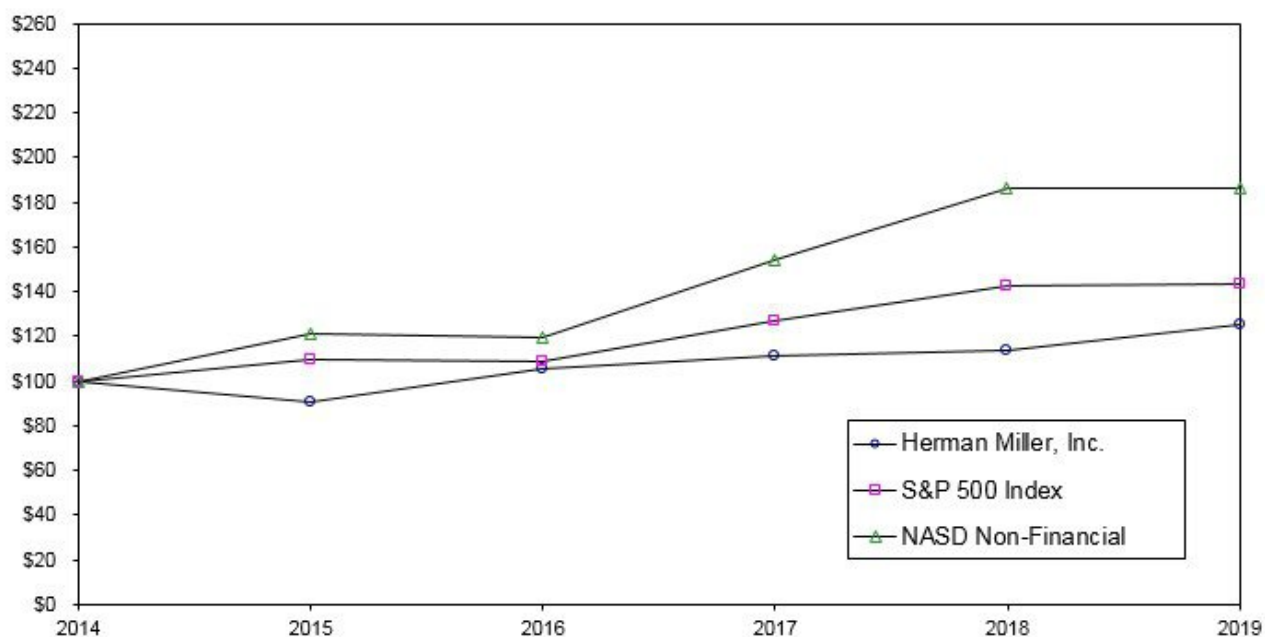
(1) Amounts are as of the end of the period indicated

The Company has two share repurchase plans authorized by the Board of Directors on September 25, 2007 and January 16, 2019, which provide share repurchase authorization of \$550.0 million with no specified expiration date. The approximate dollar value of shares available for purchase under the plans at June 1, 2019 was \$264.2 million.

During the period covered by this report, the Company did not sell any shares of common stock that were not registered under the Securities Act of 1933.

### Stockholder Return Performance Graph

Set forth below is a line graph comparing the yearly percentage change in the cumulative total stockholder return on the Company's common stock with that of the cumulative total return of the Standard & Poor's 500 Stock Index and the NASD Non-Financial Index for the five-year period ended June 1, 2019. The graph assumes an investment of \$100 on June 4, 2014 in the Company's common stock, the Standard & Poor's 500 Stock Index and the NASD Non-Financial Index, with dividends reinvested.



	2014	2015	2016	2017	2018	2019
Herman Miller, Inc.	\$ 100	\$ 90	\$ 105	\$ 111	\$ 114	\$ 126
S&P 500 Index	\$ 100	\$ 110	\$ 109	\$ 127	\$ 142	\$ 143
NASD Non-Financial	\$ 100	\$ 121	\$ 119	\$ 159	\$ 187	\$ 186

Information required by this item is also contained in Item 12 of this report.

## Item 6 Selected Financial Data

### Review of Operations

(In millions, except key ratios and per share data)

	2019	2018	2017	2016	2015
<b>Operating Results</b>					
Net sales	\$ 2,567.2	\$ 2,381.2	\$ 2,278.2	\$ 2,264.9	\$ 2,142.2
Gross margin	929.9	873.0	864.2	874.2	791.4
Selling, general, and administrative <sup>(1)</sup>	649.5	621.0	587.5	585.6	556.6
Design and research	76.9	73.1	73.1	77.1	71.4
Operating earnings	203.5	178.9	191.1	211.5	163.4
Earnings before income taxes	195.1	168.1	177.6	196.6	145.2
Net earnings	160.5	128.7	124.1	137.5	98.1
Net cash provided by operating activities	216.4	166.5	202.1	210.4	167.7
Net cash used in investing activities	(165.0)	(62.7)	(116.3)	(80.8)	(213.6)
Net cash (used in) provided by financing activities	(91.9)	2.5	(74.6)	(106.5)	6.8
Depreciation and amortization	72.1	66.9	58.9	53.0	49.8
Capital expenditures	85.8	70.6	87.3	85.1	63.6
Common stock repurchased plus cash dividends paid	93.5	88.9	63.1	49.0	37.0

### Key Ratios

Sales growth	7.8%	4.5%	0.6%	5.7%	13.8%
Gross margin <sup>(2)</sup>	36.2	36.7	37.9	38.6	36.9
Selling, general, and administrative <sup>(1) (2)</sup>	25.3	26.1	25.8	25.9	26.0
Design and research <sup>(2)</sup>	3.0	3.1	3.2	3.4	3.3
Operating earnings <sup>(2)</sup>	7.9	7.5	8.4	9.3	7.6
Net earnings growth (decline)	24.7	3.7	(9.7)	40.2	543.9
After-tax return on net sales <sup>(3)</sup>	6.3	5.4	5.4	6.1	4.6
After-tax return on average assets <sup>(4)</sup>	10.5	9.2	9.8	11.3	9.0
After-tax return on average equity <sup>(5)</sup>	23.2%	20.6%	22.3%	29.1%	25.0%

### Share and Per Share Data

Earnings per share-diluted	\$ 2.70	\$ 2.12	\$ 2.05	\$ 2.26	\$ 1.62
Cash dividends declared per share	0.79	0.72	0.68	0.59	0.56
Book value per share at year end <sup>(6)</sup>	12.23	11.22	9.84	8.76	7.04
Market price per share at year end	35.49	32.85	32.70	31.64	27.70
Weighted average shares outstanding-diluted	59.4	60.3	60.6	60.5	60.1

### Financial Condition

Total assets	\$ 1,569.3	\$ 1,479.5	\$ 1,306.3	\$ 1,235.2	\$ 1,192.7
Working capital <sup>(7)</sup>	215.2	231.6	106.2	90.5	110.1
Current ratio <sup>(8)</sup>	1.5	1.6	1.3	1.2	1.3
Interest-bearing debt and related swap agreements <sup>(9)</sup>	282.8	265.1	197.8	221.9	290.0
Stockholders' equity	719.2	664.8	587.7	524.7	420.3
Total capital <sup>(10)</sup>	1,002.0	929.9	785.5	746.6	710.3

(1) Selling, general, and administrative expenses include restructuring and impairment expenses in years that are applicable.

(2) Shown as a percent of net sales.

(3) Calculated as net earnings divided by net sales.

(4) Calculated as net earnings divided by average assets.

(5) Calculated as net earnings divided by average equity.

(6) Calculated as total stockholders' equity divided by common shares of stock outstanding.

(7) Calculated using current assets less non-interest bearing current liabilities.

(8) Calculated using current assets divided by current liabilities.

(9) Amounts shown include the fair market value of the Company's interest rate swap arrangement(s). The net fair value of this/these arrangement(s) was/were \$0.9 million at June 1, 2019, \$(9.9) million at June 2, 2018, and \$(2.1) million at June 3, 2017.

(10) Calculated as interest-bearing debt and related swap agreements plus stockholders' equity.

## Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the issues discussed in Management's Discussion and Analysis in conjunction with the Company's Consolidated Financial Statements and the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

### Executive Overview

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Herman Miller's mission statement is *Inspiring Designs to Help People Do Great Things*. At present, most customers come to the Company for furnishing interior environments in corporate offices, healthcare settings, higher education institutions and residential spaces. The Company's primary products include furniture systems, seating, storage, freestanding furniture, healthcare environment products, casegoods, textiles and related technologies and services.

More than 100 years of innovative business practices and a commitment to social responsibility have established Herman Miller as a recognized global company. The Company trades on the NASDAQ Global Select Market under the symbol MLHR.

Herman Miller's products are sold internationally through wholly-owned subsidiaries or branches in various countries including the United Kingdom, Canada, Japan, Korea, Mexico, Australia, Singapore, China, Hong Kong, India and Brazil. The Company's products are offered elsewhere in the world primarily through independent dealerships or joint ventures with customers in over 100 countries.

The Company is globally positioned in terms of manufacturing operations. In the United States, manufacturing operations are located in Michigan, Georgia, Wisconsin and North Carolina. In Europe, its manufacturing presence is located in the United Kingdom. Manufacturing operations globally also include facilities located in China, Brazil and India. The Company manufactures products using a system of lean manufacturing techniques collectively referred to as the Herman Miller Performance System (HMPS). For its contract furniture business, Herman Miller strives to maintain efficiencies and cost savings by minimizing the amount of inventory on hand. Accordingly, production is order-driven with direct materials and components purchased as needed to meet demand. The standard manufacturing lead time for the majority of our products is 10 to 20 days. These factors result in a high rate of inventory turns related to our manufactured inventories.

A key element of the Company's manufacturing strategy is to limit fixed production costs by sourcing component parts from strategic suppliers. This strategy has allowed the Company to increase the variable nature of its cost structure, while retaining proprietary control over those production processes that the Company believes provide a competitive advantage. As a result of this strategy, the Company's manufacturing operations are largely assembly-based.

A key element of the Company's growth strategy is to scale the Retail business through the Company's Design Within Reach (DWR), Herman Miller and HAY retail operations. The Retail business provides a channel to bring Herman Miller's iconic and design-centric products to retail customers, along with other proprietary and third party products, with a focus on design. The Company continues to transform its Retail business through the DWR retail studio footprint, which will be complemented by a continued focus on improving margins through the development of exclusive product designs and leveraging additional sales in DWR's contract, catalog and digital channels, as well as the launch of the HAY brand in North America.

The Company is comprised of various operating segments as defined by generally accepted accounting principles in the United States (U.S. GAAP). The operating segments are determined on the basis of how the Company internally reports and evaluates financial information used to make operating decisions. The Company has identified the following reportable segments:

- *North America Contract* — Includes the operations associated with the design, manufacture, and sale of furniture and textile 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 America Contract segment. In addition to the Herman Miller brand, this 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.
- *International Contract* — Includes the operations associated with the design, manufacture and sale of furniture products, primarily for work-related settings, in the Europe, Middle East and Africa (EMEA), Latin America and Asia-Pacific geographic regions.
- *Retail* — Includes the operations associated with the sale of modern design furnishings and accessories to third party retail distributors, as well as direct to consumer sales through e-commerce, direct mailing catalogs and DWR and HAY studios.

The Company also reports a corporate category consisting primarily of unallocated corporate expenses related to general corporate functions, including, but not limited to, certain legal, executive, corporate finance, information technology, administrative and acquisition-related costs.

## **Core Strengths**

The Company relies on the following core strengths in delivering solutions to customers:

- *Portfolio of Leading Brands and Products* - Herman Miller is a globally-recognized, authentic brand known for working with some of the most well known and respected designers in the world. Over the years, it has evolved into Herman Miller Group, a family of brands that collectively offers a variety of products for environments where people live, learn, work and heal. Within the industries in which the Company operates, Herman Miller, DWR, Geiger, Maharam, POSH, Nemschoff, Colbrook Bosson Saunders ("CBS"), HAY, Maars Livings Walls and Naughtone are acknowledged as leading brands that inspire architects and designers to create their best design solutions. This portfolio has enabled Herman Miller to connect with new audiences, channels, geographies and product categories. Leveraging the collective brand equity of the Herman Miller Group across the lines of business is an important element of the Company's business strategy.
- *Problem-Solving Design and Innovation* - The Company is committed to developing research-based functionality and aesthetically innovative new products and has a history of doing so, in collaboration with a global network of leading independent designers. The Company believes its skills and experience in matching problem-solving design with the workplace needs of customers provide the Company with a competitive advantage in the marketplace. An important component of the Company's business strategy is to actively pursue a program of new product research, design and development. The Company accomplishes this through the use of an internal research and engineering staff that engages with third party design resources generally compensated on a royalty basis.
- *Operational Excellence* - The Company was among the first in the industry to embrace the concepts of lean manufacturing. HMPS provides the foundation for all the Company's manufacturing operations. The Company is committed to continuously improving both product quality and production and operational efficiency. The Company has extended this lean process work to its non-manufacturing processes as well as externally to its manufacturing supply chain and distribution channel. The Company believes these concepts hold significant promise for further gains in reliability, quality and efficiency.
- *Omni-Channel Reach* - The Company has built a multi-channel distribution capability that it considers unique. Through contract furniture dealers, direct customer sales, retail studios, e-Commerce, catalogs and independent retailers, the Company serves contract and residential customers across a range of channels and geographies.
- *Global Scale* - In addition to its global omni-channel distribution capability, the Company has a global network of designers, suppliers, manufacturing operations and research and development centers that position the Company to serve contract and residential customers globally. The Company believes that leveraging this global scale will be an important enabler to executing its strategy.

## **Channels of Distribution**

The Company's products and services are offered to most of its customers under standard trade credit terms between 30 and 45 days. For all the items below, revenue is recognized when both title and risk of loss transfers to the customer. The Company's products and services are sold through the following distribution channels:

- *Independent and Owned Contract Furniture Dealers* - Most of the Company's product sales are made to a network of independently owned and operated contract furniture dealerships doing business in many countries around the world. These dealers purchase the Company's products and distribute them to end customers. Many of these dealers also offer furniture-related services, including product installation.
- *Direct Contract Sales* - The Company also sells products and services directly to end customers without an intermediary (e.g., sales to the U.S. federal government). In most of these instances, the Company contracts separately with a dealership or third-party installation company to provide sales-related services.
- *Retail Studios* - At the end of fiscal 2019, the Retail business unit included 39 retail studios (including 36 operating under the DWR brand, 2 under the HAY brand and a Herman Miller Flagship store in New York City). This business also operates three outlet studios. The retail studios are located in metropolitan areas throughout North America.
- *E-Commerce* - The Company sells products through its online stores, in which products are available for sale via the Company's website, hermanmiller.com, global e-commerce platforms, as well as through the dwr.com and us.hay.com online stores. These sites complement our existing methods of distribution and extend the Company's brand to new customers.



- *Direct-Mail Catalogs* - The Company's Retail business unit utilizes a direct-mail catalog program through its DWR subsidiary. A regular schedule of catalog mailings is maintained throughout the fiscal year and these serve as a key driver of sales across each of DWR's channels, including retail studios and e-commerce websites.
- *Independent Retailers* - Certain products are sold to end customers through independent retail operations.

### **Challenges Ahead**

Like all businesses, the Company is faced with a host of challenges and risks. The Company believes its core strengths and values, which provide the foundation for its strategic direction, have well prepared the Company to respond to the inevitable challenges it will face in the future. While the Company is confident in its direction, it acknowledges the risks specific to our business and industry. Refer to Item 1A for discussion of certain of these risk factors and Item 7A for disclosures of market risk.

### **Areas of Strategic Focus**

Despite a number of risks and challenges, the Company believes it is well positioned to successfully pursue its mission of inspiring designs to help people do great things. As our business and industry continue to evolve, we are constantly focused on staying ahead of the curve. With the composition of the office floor plate moving toward a broader variety of furnishings, a greater desire for customization from our customers, new technologies, and trends towards urbanization and more seamless transactions in the retail world, we have centered our overall value creation strategy on four key priorities.

*Unlock the Power of One Herman Miller* - Coming together as a family of complementary brands will help achieve our goals of more actively moving into the consumer marketplace, growing globally and making it easier to do business with us. The Company strives to become more agile, invest in responsive innovation, simplify our go-to-market strategy and continue to lead in product innovation across all of our businesses globally.

*Build a Customer-centric, Digitally-enabled Business Model* - Building a customer centric and digitally enabled business model is at the forefront of our goal to become easier to do business with us. The Company will leverage its deep understanding of customer journeys to deliver inspired products and a frictionless customer experience. Along with strengthening the core technology backbone, the Company will also drive step-change in data, analytics, marketing and brand capabilities.

*Accelerate Profitable Growth* - There are identified opportunities for growth ahead in each of the Company's business segments. We believe we are the only player in our industry with access to meaningful contract and residential growth opportunities on a global scale. At the same time, with our ongoing focus on operational excellence and specific profit improvement initiatives, we are focused on continuous improvement of our cost structure.

*Reinforce Our Commitment to Our People, Planet, Communities* - With a legacy of corporate social responsibility that is deeply ingrained in our culture, the Company will reinforce its commitment to its people, planet and communities in a more integrated and deliberate way than ever before. The Company will focus on building, developing and retaining world-class talent, shaping an inclusive and diverse workforce and elevating its total societal impact commitment. By viewing the impact of our organization through its total societal impact, we believe we can create value for our shareholders, customers and employees, as well as for the broader communities and environment in which we operate.

The Company believes its strategy continues to respond well to current and future realities in its markets. The Company's strategic priorities are aimed at creating a sustainable and diverse revenue model that puts the customer at the center of everything we do and leverages enabling digital capabilities to fully realize that vision.

## Business Overview

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The following is a summary of the significant events and items impacting the Company's operations for the year ended June 1, 2019:

- Andi Owen was elected as President and Chief Executive Officer of the Company effective on August 22, 2018, succeeding Brian Walker who retired from the Company in August 2018. Ms. Owen joins Herman Miller after a 25-year career at Gap Inc., where she most recently served as Global President of Banana Republic, leading 11,000 employees in over 600 stores across 27 countries.
- Net sales were \$2,567.2 million and orders were \$2,614.9 million, representing an increase of 7.8% and 8.6%, respectively, when compared to the prior year. The increase in net sales was driven primarily by strong performance within the North America, International and Retail 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 \$2,583.7 million(\*) and orders were \$2,628.6 million, representing an increase of 7.1%(\*) and 7.7%, respectively, when compared to the prior year.
- Gross margin was 36.2% as compared to 36.7% in the prior year. The decrease in gross margin was driven primarily by the reclassification impact of adopting the new revenue recognition standard (ASC 606) at the beginning of fiscal 2019. Higher commodity costs and the impact of tariffs on Chinese imports also decreased gross margin, but were offset by lower material costs within the North America segment and lower costs within the International segment.
- Operating expenses increased by \$32.3 million or 4.7% as compared to the prior year. Operating expenses included special charges, totaling \$13.1 million, related mainly to costs associated with the CEO transition, certain business structure realignment costs and third party consulting costs attributable to the Company's profit enhancement initiatives. Operating expenses also included restructuring costs of \$10.2 million related to actions involving facilities consolidation, targeted workforce reductions and costs associated with an early retirement program.
- The effective tax rate was 20.3% for fiscal 2019 compared to 25.2% for the prior year. The decrease in the current year effective tax rate was driven primarily by the full year impact of the Tax Cuts and Jobs Act (the "Act") as compared to a partial year impact in fiscal 2018.
- Diluted earnings per share increased \$0.58 to \$2.70, a 27.4% increase as compared to the prior year. Excluding the impact of restructuring expenses, other special charges, a gain associated with the fair value adjustment of an investment, an inventory step up on the HAY equity method investment and the final adjustment related to the adoption U.S. tax reform, adjusted diluted earnings per share were \$2.97(\*), a 29.1% increase as compared to the prior year.
- The Company declared cash dividends of \$0.79 per share compared to \$0.72 per share in the prior year.
- Strategic investments of approximately \$72 million were made in HAY and Maars Living Walls.
- Effective in the fourth quarter of fiscal 2019, the Company revised its reportable segments to combine the Specialty reportable segment with the North American Furniture Solutions reportable segment. The newly combined segment is called "North America Contract".

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 the Business and Institutional Furniture Manufacturers Association ("BIFMA"), GDP growth, service sector employment and architectural billings.
- The Company is monitoring the resolution of various 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 navigating the impact of global tariffs. In May 2019, the U.S. enacted a 25% tariff rate on certain goods imported by the Company and its suppliers from China. The Company continues to believe that pricing, strategic sourcing actions, and profit optimization initiatives will fully offset the current level of tariffs imposed on imports from China.

The remaining sections of Item 7 include additional analysis of the fiscal year ended June 1, 2019, including discussion of significant variances compared to the prior year period. A detailed review of our fiscal 2018 performance compared to our fiscal 2017 performance is set forth in Part II, Item 7 of our Form 10-K for the fiscal year ended June 2, 2018.

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

## Reconciliation of Non-GAAP Financial Measures

This report contains references to Organic net sales and Adjusted diluted earnings per share ("EPS"), both of which are non-GAAP financial measures (referred to collectively as the "Adjusted financial measures"). Organic Growth represents the change in sales and orders, excluding the impact of divestitures, currency translation effects, the impact of reclassification related to the new revenue recognition standard (ASC 606), and changes in shipping terms. Adjusted Earnings per Share represents reported diluted earnings per share excluding the impact from the adoption of U.S. Tax Reform, an investment fair value adjustment, amortization of an inventory step up on the HAY equity method investment, restructuring expenses, and other special charges, including related taxes. Restructuring expenses include actions involving facilities consolidation, targeted workforce reductions and costs associated with an early retirement program. Special charges include costs related to the CEO transition, certain business structure realignment costs, and third party consulting costs related to the Company's profit enhancement initiatives.

The Company presents the Adjusted financial measures because we consider them to be important supplemental measures of our performance and believe them to be useful in analyzing ongoing results from operations. The adjusted financial measures are not measurements of our financial performance under GAAP and should not be considered an alternative to Earnings per share - diluted, or the Company's reported Net sales under GAAP. The Adjusted financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP. The Company's presentation of the Adjusted financial measures should not be construed as an indication that its future results will be unaffected by unusual or infrequent items. The Company compensates for these limitations by providing prominence of the GAAP results and using the Adjusted financial measures only as a supplement.

The following table reconciles Net sales to Organic net sales by segment for the fiscal years ended:

	June 1, 2019				June 2, 2018			
	North America	International	Retail	Total	North America	International	Retail	Total
Net Sales, as reported	\$ 1,686.5	\$ 492.2	\$ 388.5	\$ 2,567.2	\$ 1,589.8	\$ 434.5	\$ 356.9	\$ 2,381.2
% change from PY	6.1%	13.3%	8.9%	7.8%				
<b>Proforma Adjustments</b>								
Dealer Divestitures	—	—	—	—	(0.8)	—	—	(0.8)
Currency Translation Effects <sup>(1)</sup>	3.8	12.4	0.3	16.5	—	—	—	—
Impact of Reclassification Related to New Revenue Recognition Standard	—	—	—	—	23.9	12.3	—	36.2
Impact of Change in DWR Shipping Terms	—	—	—	—	—	—	(5.0)	(5.0)
<b>Organic net sales</b>	<b>\$ 1,690.3</b>	<b>\$ 504.6</b>	<b>\$ 388.8</b>	<b>\$ 2,583.7</b>	<b>\$ 1,612.9</b>	<b>\$ 446.8</b>	<b>\$ 351.9</b>	<b>\$ 2,411.6</b>
% change from PY	4.8%	12.9%	10.5%	7.1%				

<sup>(1)</sup> 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

The following table reconciles EPS to Adjusted EPS for the years indicated:

	June 1, 2019	June 2, 2018
Earnings per Share - Diluted	\$ 2.70	\$ 2.12
Less: Adjustments Related to Adoption of U.S. Tax Cuts and Jobs Act	(0.02)	(0.05)
Less: Investment fair value adjustment, after tax	(0.03)	—
Add: Special charges, after tax	0.18	0.16
Add: inventory step up on HAY equity method investment, after tax	0.01	—
Add: Restructuring expenses, after tax	0.13	0.07
<b>Adjusted Earnings per Share - Diluted</b>	<b>\$ 2.97</b>	<b>\$ 2.30</b>
<b>Weighted Average Shares Outstanding (used for Calculating Adjusted Earnings per Share) – Diluted</b>	<b>59,381,791</b>	<b>60,311,305</b>

## Financial Results

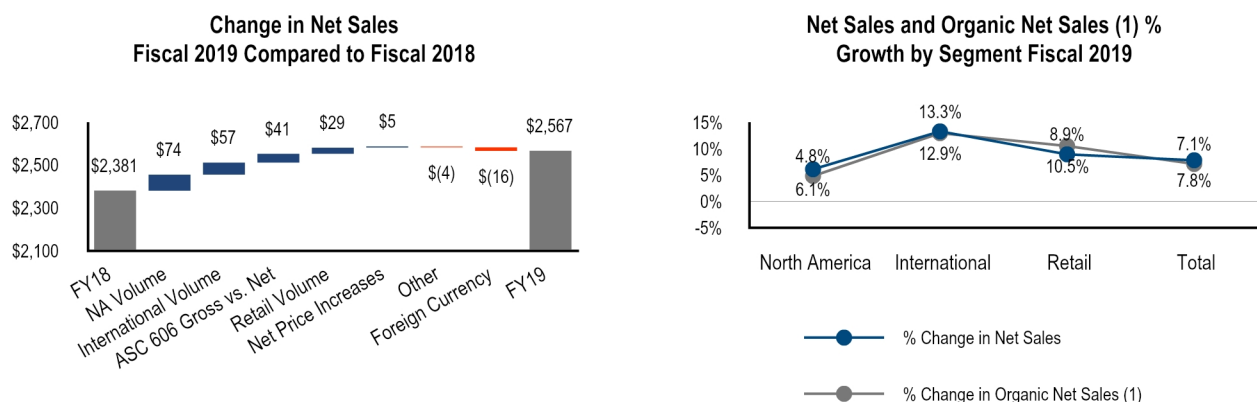
The following is a comparison of our annual results of operations and year-over-year percentage changes for the periods indicated:

(Dollars in millions)	Fiscal 2019	Fiscal 2018	% Change
Net sales	\$ 2,567.2	\$ 2,381.2	7.8 %
Cost of sales	1,637.3	1,508.2	8.6 %
Gross margin	929.9	873.0	6.5 %
Operating expenses	726.4	694.1	4.7 %
Operating earnings	203.5	178.9	13.8 %
Net other expenses	8.4	10.8	(22.2)%
Earnings before income taxes	195.1	168.1	16.1 %
Income tax expense	39.6	42.4	(6.6)%
Equity income from nonconsolidated affiliates, net of tax	5.0	3.0	66.7 %
Net earnings	160.5	128.7	24.7 %
Net earnings attributable to noncontrolling interests	—	0.6	(100.0)%
Net earnings attributable to Herman Miller, Inc.	\$ 160.5	\$ 128.1	25.3 %

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

	Fiscal 2019	Fiscal 2018
Net sales	100.0%	100.0%
Cost of sales	63.8	63.3
Gross margin	36.2	36.7
Selling, general and administrative expenses	24.9	25.8
Restructuring and impairment expenses	0.4	0.2
Design and research expenses	3.0	3.1
Total operating expenses	28.3	29.1
Operating earnings	7.9	7.5
Net other expenses	0.3	0.5
Earnings before income taxes	7.6	7.1
Income tax expense	1.5	1.8
Equity income from nonconsolidated affiliates, net of tax	0.2	0.1
Net earnings	6.3	5.4
Net earnings attributable to noncontrolling interests	—	—
Net earnings attributable to Herman Miller, Inc.	6.3	5.4

## Net Sales, Orders and Backlog - Fiscal 2019 Compared to Fiscal 2018



Consolidated net sales increased \$186.0 million to \$2,567.2 million from \$2,381.2 million for the fiscal year ended June 1, 2019 compared to the fiscal year ended June 2, 2018. The following items contributed to the change:

- Increased sales volumes within the North America segment of approximately \$74 million due to increased demand within the Company's core contract furniture business.
- Increased sales volumes within the International segment of approximately \$57 million, which were driven by broad-based growth across the Asia Pacific and Latin America 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 \$40.5 million compared to the prior year in which revenue was recorded under previous accounting rules.
- Increased sales volumes within the Retail segment of approximately \$29 million, which were driven primarily by the introduction of HAY products and growth across the Company's DWR studio, e-commerce and contract channels.
- Incremental list price increases, net of deeper contract price discounting, of approximately \$5 million.
- Foreign currency translation had a negative impact on net sales of approximately \$16 million.

Consolidated net trade orders for fiscal 2019 totaled \$2,614.9 million compared to \$2,408.2 million in fiscal 2018, an increase of 8.6 percent. On an organic basis, which excludes the impact of the adoption of ASC 606, as well as foreign currency translation and dealer divestitures, orders increased by 7.7 percent from last fiscal year. The impact of the adoption of ASC 606 increased orders by \$35.7 million in the current year and changes in foreign currency for the fiscal year increased orders by approximately \$13.7 million as compared to the prior year. Dealer divestitures had a \$2.2 million unfavorable impact on current year orders.

The Company's backlog of unfilled orders at the end of fiscal 2019 totaled \$394.2 million, a 12.4 percent increase from the fiscal 2018 ending backlog of \$350.7 million.

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

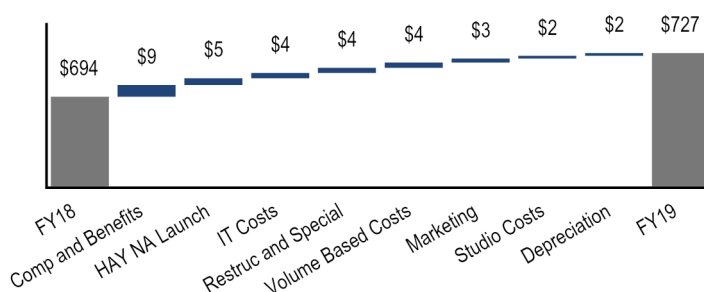
### Gross Margin - Fiscal 2019 Compared to Fiscal 2018

Consolidated gross margin was 36.2% for fiscal 2019 as compared to 36.7% for fiscal 2018. 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 last fiscal year.
- Higher freight and storage costs within the Retail segment decreased gross margin by approximately 30 basis points as compared to last fiscal year.
- Lower material costs within the North America segment, due primarily to reduced outsourcing, and lower costs within the International segment, due primarily to volume leverage and product mix, increased gross margin by approximately 50 basis points as compared to last fiscal year.

## Operating Expenses - Fiscal 2019 Compared to Fiscal 2018

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Operating expenses increased by \$32.3 million or 4.7% over the prior year. The following factors contributed to the change:

- Compensation and benefit costs increased by approximately \$9 million due mainly to employee headcount and wage increases.
- Incremental spend of approximately \$5 million related to the marketing, e-commerce and studios associated with the launch of the HAY brand in North America.
- Higher information technology related expenses of approximately \$4 million.
- Restructuring and special charges, primarily related to facilities consolidation and costs associated with an early retirement program increased operating expenses by approximately \$4 million.
- Sales volume based costs, such as sales commissions and royalties, drove an increase in operating expenses of approximately \$4 million.
- Marketing expenses increased by roughly \$3 million due primarily to the sales initiatives within the North America and Retail segments.
- Incremental costs related to the continued growth and expansion of DWR retail studios increased operating expenses by approximately \$2 million.
- Depreciation expense increased by approximately \$2 million and was driven primarily by investment in facilities and information technology systems.

### Operating Earnings

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Operating earnings in fiscal 2019 were \$203.5 million, or 7.9% of sales, an increase of \$24.6 million compared to fiscal 2018 operating earnings of \$178.9 million, or 7.5% of sales.

### Other Expenses and Income

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Net other expenses for fiscal 2019 were \$8.4 million, a decrease of \$2.4 million compared to net other expenses in fiscal 2018 of \$10.8 million. The decrease in net other expenses in fiscal 2019 was primarily the result of a gain related to an investment fair value adjustment.

### Equity Earnings from Nonconsolidated Affiliates

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Equity earnings from nonconsolidated affiliates for fiscal 2019 were \$5.0 million, an increase of \$2.0 million compared to Equity earnings from nonconsolidated affiliates of \$3.0 million in fiscal 2018. This increase was driven by incremental earnings from the Company's investment in Naughtone and HAY.

## ***Income Taxes***

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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 percent to 21 percent and a new participation exemption system of taxation on foreign earnings, among other provisions.

Securities and Exchange Commission Staff Accounting Bulletin No. 118 allowed the use of provisional amounts if accounting for certain income tax effects of the Act had not been completed by the time the company's financial statements are issued. A measurement period was provided beginning December 22, 2017 and was not to last longer than one year. During the year ended June 1, 2019, the Company completed its accounting for all the effects of the Act and recorded adjustments to the provisional amounts primarily for the one-time U.S. tax liability on certain undistributed foreign earnings and also an adjustment related to foreign tax credits to increase the income tax benefit from the Act by \$1.0 million.

The Company's effective tax rate was 20.3 percent in fiscal 2019, and 25.2 percent in fiscal 2018. The effective tax rate in fiscal 2019 was below the United States statutory rate of 21 percent, primarily due to an increase in the mix of earnings in tax jurisdictions that have rates lower than the United States statutory rate and the research and development tax credit under the Protecting Americans from Tax Hikes ("PATH") Act of 2015.

The effective tax rate in fiscal 2018 was below the statutory rate of 29.1 percent, primarily due to an increase in the mix of earnings in tax jurisdictions that have rates lower than the United States statutory rate, the manufacturing deduction under the American Jobs Creation Act of 2004 ("AJCA") and the research and development tax credit under the PATH.

For further information regarding income taxes, refer to Note 11 of the Consolidated Financial Statements.

## ***Net Earnings; Earnings per Share***

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In fiscal 2019 and fiscal 2018, the Company generated net earnings attributable to Herman Miller, Inc. of \$160.5 million and \$128.1 million, respectively. Diluted earnings per share were \$2.70 and \$2.12 for fiscal 2019 and fiscal 2018, respectively.

## Reportable Operating Segments Results

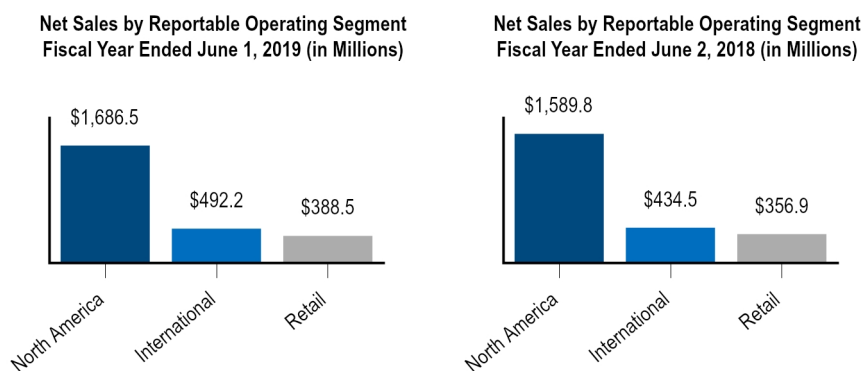
The business is comprised of various operating segments as defined by generally accepted accounting principles in the United States. These operating segments are determined on the basis of how the Company internally reports and evaluates financial information used to make operating decisions.

Prior to the fourth quarter of fiscal 2019, the Company's reportable segments consisted of North American Furniture Solutions, ELA ("EMEA, Latin America, and Asia Pacific") Furniture Solutions, Specialty and Consumer. Effective in the fourth quarter of fiscal 2019, the Company has revised its reportable segments to combine the Specialty reportable segment with the North American Furniture Solutions reportable segment. The newly combined segment is called "North America Contract". There were no changes to the Company's ELA Furniture Solutions ("ELA") and Consumer segments, but each has been renamed. Effective in the fourth quarter of fiscal 2019, ELA is now named "International Contract" and Consumer is named "Retail". The Specialty segment (Maharam, Geiger, Nemschoff and the Herman Miller Collection) has been combined with the North America Contract segment under a common segment manager as of the fourth quarter fiscal 2019. The change in operating segments reflect the basis of how the Company internally reports and evaluates financial information used to make operating decisions. Prior year results disclosed in the table below have been revised to reflect these changes. Accordingly, fiscal 2018 net sales and operating earnings for the Specialty segment of \$305.4 million and \$8.9 million, respectively, have been included within the results of the North America Contract reportable segment.

The Company's operating segments can be further described as follows:

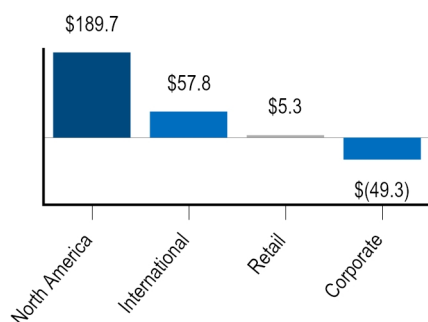
- *North America Contract* — Includes the operations associated with the design, manufacture, and sale of furniture and textile products for work-related settings, including office, education and healthcare environments, throughout the United States and Canada. The business associated with the Company's owned contract furniture dealers is also included in the North America Contract segment. In addition to the Herman Miller brand, this 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.
- *International Contract* — Includes the operations associated with the design, manufacture and sale of furniture products, primarily for work-related settings, in the Europe, Middle East and Africa (EMEA), Latin America and Asia-Pacific geographic regions.
- *Retail* — Includes the operations associated with the sale of modern design furnishings and accessories to third party retail distributors, as well as direct to consumer sales through e-commerce, direct mailing catalogs and DWR and HAY studios.
- *Corporate* — Consists 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 each of the Company's reportable segments. This is followed by a discussion of the Company's results, by reportable segment.

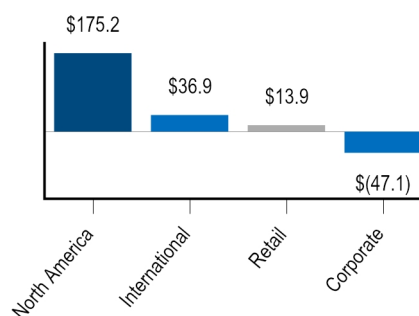




Operating Earnings by Reportable Operating Segment  
Fiscal Year Ended June 1, 2019 (in Millions)



Operating Earnings by Reportable Operating Segment  
Fiscal Year Ended June 2, 2018 (in Millions)



### North America Contract ("North America")

	Fiscal 2019	Fiscal 2018	Change
Net sales	\$ 1,686.5	\$ 1,589.8	\$ 96.7
Gross margin	592.3	565.5	26.8
Gross margin %	35.1%	35.6%	(0.5)%
Operating earnings	189.7	175.2	14.5
Operating earnings %	11.2%	11.0%	0.2 %

Net sales increased 6.1%, or 4.8%<sup>(\*)</sup> on an organic basis, over the prior year due to:

- Increased sales volumes within the North America segment of approximately \$74 million due to increased demand within the Company's core contract furniture business; and
- The adoption of ASC 606 - Revenue from Contracts with Customers at the beginning of fiscal 2019 which led to the reclassification of \$27.0 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 \$4 million.

Operating earnings increased \$14.5 million, or 8.3%, over the prior year due to:

- Increased gross margin of \$26.8 million due to increased sales volumes and decreased gross margin percentage of 50 basis points due mainly to the adoption of ASC 606 and higher commodity and tariff costs, partially offset by profit optimization initiatives and improved material performance; partially offset by
- Increased operating expenses of \$12.3 million driven primarily by greater restructuring expenses in the current year related to facilities consolidation and costs associated with an early retirement program. Increases in compensation and benefit costs also contributed to the increase in operating expenses from the comparative period.

<sup>(\*)</sup> Non-GAAP measurements; see accompanying reconciliations and explanations.

## International Contract ("International")

	Fiscal 2019	Fiscal 2018	Change
Net sales	\$ 492.2	\$ 434.5	\$ 57.7
Gross margin	166.9	144.2	22.7
Gross margin %	33.9%	33.2%	0.7%
Operating earnings	57.8	36.9	20.9
Operating earnings %	11.7%	8.5%	3.2%

Net sales increased 13.3%, or 12.9%<sup>(\*)</sup> on an organic basis, over the prior year due to:

- Increased sales volumes within the International segment of approximately \$57 million which were driven by broad-based growth across the Asia Pacific and Latin America regions; and
- The adoption of ASC 606 - Revenue from Contracts with Customers at the beginning of fiscal 2019 which led to the reclassification of \$13.5 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 \$12 million.

Operating earnings increased \$20.9 million, or 56.6%, over the prior year due to:

- Increased gross margin of \$22.7 million due mainly to increased sales volumes; and
- Increased gross margin of 70 basis points due mainly to lower overhead costs associated with the benefit from recent restructuring activities in China and lower material costs, driven primarily by volume leverage and product mix; partially offset by
- Decreases to gross margin due to deeper discounting and the adoption of ASC 606.

## Retail

	Fiscal 2019	Fiscal 2018	Change
Net sales	\$ 388.5	\$ 356.9	\$ 31.6
Gross margin	170.7	163.3	7.4
Gross margin %	43.9%	45.8%	(1.9)%
Operating earnings	5.3	13.9	(8.6)
Operating earnings %	1.4%	3.9%	(2.5)%

Net sales increased 8.9%, or 10.5%<sup>(\*)</sup> on an organic basis, over the prior year due to:

- Increased sales volumes within the Retail segment of approximately \$29 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 \$4 million.

Operating earnings decreased \$8.6 million, or 61.9%, over the prior year due to:

- Increased operating expenses of \$16.0 million due to incremental marketing, compensation and depreciation expenses that were driven mainly by growth in the segment, new studios and the launch of the HAY brand in North America; offset by
- Increased gross margin of \$7.4 million on higher sales volumes but decreased gross margin percentage of 190 basis points due mainly to lower shipping revenue, higher freight and storage costs and a shift in product mix, partially offset by profit optimization initiatives.

## Corporate

Corporate unallocated expenses totaled \$49.3 million for fiscal 2019, an increase of \$2.2 million from fiscal 2018. The increase was driven mainly by increased legal and information technology expenses.

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

## Liquidity and Capital Resources

The table below presents certain key cash flow and capital highlights for the fiscal years indicated.

(In millions)	Fiscal Year Ended	
	2019	2018
Cash and cash equivalents, end of period	\$ 159.2	\$ 203.9
Marketable securities, end of period	\$ 8.8	\$ 8.6
Cash provided by operating activities	\$ 216.4	\$ 166.5
Cash used in investing activities	\$ (165.0)	\$ (62.7)
Cash (used in) provided by financing Activities	\$ (91.9)	\$ 2.5
Pension contributions	\$ (0.9)	\$ (13.4)
Capital expenditures	\$ (85.8)	\$ (70.6)
Common stock repurchased	\$ (47.9)	\$ (46.5)
Long-term debt, end of period	\$ 281.9	\$ 275.0
Available unsecured credit facilities, end of period <sup>(1)</sup>	\$ 165.0	\$ 166.8

(1) Amounts shown are net of outstanding letters of credit, which are applied against the Company's unsecured credit facility.

### Cash Flow — Operating Activities

Cash generated from operating activities in fiscal 2019 totaled \$216.4 million compared to \$166.5 million generated in the prior year.

Changes in working capital balances in fiscal 2019 resulted in a \$34.1 million use of cash compared to a \$32.8 million use of cash in the prior fiscal year. The cash outflow related to changes in working capital balances was driven primarily by an increase in inventory of \$31.9 million and an increase in accounts receivable of \$24.8 million. The increase in inventory as of the end of fiscal 2019 as compared to fiscal 2018 was due mainly to growth in demand at DWR, the build out of inventory in the International segment to fulfill demand, and the launch of the HAY brand in North America. The increase in accounts receivable was driven by the timing of customer payments and shipments in the fourth quarter of the fiscal year. These cash outflows were partially offset by an increase in accounts payable of \$0.5 million and an increase in accrued liabilities of \$22.7 million. This increase in accrued liabilities is primarily related to an increase in accrued compensation related to the early retirement program instituted in fiscal 2019 and an increase in other accruals.

In addition to changes in working capital, changes in pension contributions also impacted cash generated from operating activities. The Company decreased pension contributions by \$12.5 million in fiscal 2019 as compared to fiscal 2018.

The Company believes its recorded accounts receivable allowances at the end of the year are adequate to cover the risk of potential bad debts. Allowances for non-collectible accounts receivable, as a percent of gross accounts receivable, totaled 1.4 percent and 1.3 percent, at the end of fiscal years 2019 and 2018 respectively.

### Cash Flow — Investing Activities

Capital expenditures totaled \$85.8 million and \$70.6 million in fiscal 2019 and 2018 respectively. The increase in capital expenditures of \$15.2 million from fiscal 2018 to fiscal 2019 was driven primarily by an increase in expenditures related to manufacturing assets in West Michigan and Design Within Reach studio build outs.

Cash proceeds from sales of dealers and properties were \$0.5 million and \$2.1 million in fiscal 2019 and 2018 respectively. Cash proceeds received in fiscal 2019 were primarily due to the disposal of property plant and equipment in the International Contract segment. Cash proceeds received in fiscal 2018 was primarily attributable to the sale of a wholly-owned contract furniture dealership in Vancouver, Canada for initial cash consideration of \$2.0 million.

Included in the fiscal 2019 and 2018 investing activities are net cash outflows related to equity investments in non-consolidated entities. The following amounts represent the primary investments that drove the cash outflows:

(In millions)	2019	2018
Maars Holding, B.V	\$ 6.1	\$ —
HAY A/S*	\$ 65.5	\$ —
Naughtone Holdings Limited	\$ 2.0	\$ —
Total Cash Outflow	\$ 73.6	\$ —

\* Formerly known as Nine United Denmark A/S

Outstanding commitments for future capital purchases at the end of fiscal 2019 were approximately \$34.7 million. The Company expects capital spending in fiscal 2020 to be between \$105 million and \$115 million. The capital spending will be allocated primarily to planned investments in manufacturing assets and retail studio openings.

The Company's net marketable securities transactions for fiscal 2019 yielded a \$0.2 million cash outflow. This compares to a zero use of cash in fiscal 2018.

### **Cash Flow — Financing Activities**

Cash used for financing activities was \$91.9 million in fiscal 2019 as compared to cash provided by financing activities of \$2.5 million in fiscal 2018. During fiscal 2018, the Company borrowed \$225.0 million on its revolving line of credit and of these proceeds, \$150.0 million was used to repay its Series B Notes. There were no such borrowings in fiscal 2019.

Cash paid for repurchases of common stock was \$47.9 million in the current year as compared to \$46.5 million in the prior year. Additionally, in fiscal 2019 there was a decrease in cash inflows from the issuance of shares related to stock-based compensation plans. The Company received \$12.3 million related to stock-based compensation plans in fiscal 2019 compared to \$17.0 million in fiscal 2018.

Cash outflows for dividend payments were \$45.6 million and \$42.4 million in fiscal 2019 and 2018 respectively.

The Company is the controlling owner of a subsidiary in which there are redeemable noncontrolling equity interests outstanding. Certain minority shareholders in this subsidiary have the right, at certain times, to require the subsidiary to acquire a portion of their ownership interest in those entities at fair value. During fiscal 2019, these minority shareholders exercised certain of these options to require the Company's subsidiary to purchase \$10.1 million of the outstanding redeemable noncontrolling interests. By comparison, options exercised by the minority shareholders in fiscal 2018 resulted in purchases totaling \$1.0 million. The subsidiary also has an option to acquire a portion of the redeemable noncontrolling interests at fair market value. On July 23, 2019, the subsidiary exercised an option that allowed it to acquire approximately \$12.6 million of the remaining \$20.6 million of the redeemable noncontrolling equity interests.

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 annually thereafter.

### **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, see Note 6 to the consolidated financial statements.

(In millions)	June 1, 2019	June 2, 2018
Cash and cash equivalents	\$ 159.2	\$ 203.9
Marketable securities	\$ 8.8	\$ 8.6
Availability under revolving lines of credit	\$ 165.0	\$ 166.8

At the end of fiscal 2019, the Company had cash and cash equivalents of \$159.2 million, including foreign cash and cash equivalents of \$87.9 million. In addition, the Company had foreign marketable securities of \$8.8 million. The foreign subsidiary holding the Company's marketable securities is taxed as a U.S. taxpayer at the Company's election. Consequently, for tax purposes, all U.S. tax impacts for this subsidiary have been recorded. Historically, the Company's intent was to permanently reinvest the remainder of the cash outside the United States. However, 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 Company is considering the impact of the Act and the one-time transition tax on its foreign earnings which are invested in liquidable assets. As a result, the Company may repatriate certain amounts in the future and is assessing the amount of cash that will remain permanently reinvested.

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.

## Contingencies

The Company is 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.

## Basis of Presentation

The Company's fiscal year ends on the Saturday closest to May 31. The fiscal years ended June 1, 2019 and June 2, 2018 contained 52 weeks, while the fiscal year ended June 3, 2017 contained 53 weeks.

## Contractual Obligations

Contractual obligations associated with our ongoing business and financing activities will result in cash payments in future periods. The following table summarizes the amounts and estimated timing of these future cash payments. Further information regarding debt obligations can be found in Note 6 of the Consolidated Financial Statements. Additional information related to operating leases can be found in Note 7 of the Consolidated Financial Statements.

(In millions)	Payments due by fiscal year				
	Total	2020	2021-2022	2023-2024	Thereafter
Long-term debt <sup>(1)</sup>	\$ 275.0	\$ —	\$ 275.0	\$ —	\$ —
Estimated interest on debt obligations <sup>(1)</sup>	73.1	11.8	19.9	17.5	23.9
Operating leases	315.8	51.7	89.7	72.5	101.9
Purchase obligations <sup>(2)</sup>	73.5	69.6	3.9	—	—
Pension and other post employment benefit plans funding <sup>(3)</sup>	0.9	0.4	0.1	0.1	0.3
Stockholder dividends <sup>(4)</sup>	11.6	11.6	—	—	—
Other <sup>(5)</sup>	15.3	5.4	2.3	1.9	5.7
Total	<u>\$ 765.2</u>	<u>\$ 150.5</u>	<u>\$ 390.9</u>	<u>\$ 92.0</u>	<u>\$ 131.8</u>

(1) Contractual cash payments on long-term debt obligations are disclosed herein based on the maturity date of the underlying debt. Estimated future interest payments on our outstanding interest-bearing debt obligations are based on interest rates as of June 1, 2019. Actual cash outflows may differ significantly due to changes in interest rates.

(2) Purchase obligations consist of non-cancelable purchase orders and commitments for goods, services, and capital assets.

(3) Pension plan funding commitments are known for a 12-month period for those plans that are funded; unfunded pension and post-retirement plan funding amounts are equal to the estimated benefit payments. As of June 1, 2019, the total projected benefit obligation for our domestic and international employee pension benefit plans was \$110.1 million.

(4) Represents the dividend payable as of June 1, 2019. Future dividend payments are not considered contractual obligations until declared.

(5) Other contractual obligations primarily represent long-term commitments related to deferred and supplemental employee compensation benefits, and other post-employment benefits.

## Off-Balance Sheet Arrangements — Guarantees

We provide 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 Accounting Standards Codification (ASC) Topic 460, "Guarantees" as described in Note 13 of the Consolidated Financial Statements.

## Critical Accounting Policies and Estimates

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Our goal is to report financial results clearly and understandably. We follow accounting principles generally accepted in the United States in preparing our Consolidated Financial Statements, which require us to make certain estimates and apply judgments that affect our financial position and results of operations. We continually review our accounting policies and financial information disclosures. These policies and disclosures are reviewed at least annually with the Audit Committee of the Board of Directors. Following is a summary of our more significant accounting policies that require the use of estimates and judgments in preparing the financial statements.

### **Revenue Recognition**

Most of our products and services are sold through one of six channels: independent and owned contract furniture dealers, direct contract sales, retail studios, e-commerce, direct-mail catalogs, and independent retailers. 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.

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.

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.

### **Receivable Allowances**

We base our allowances for receivables on known customer exposures, historical credit experience and the specific identification of other potential problems, including the current economic climate. These methods are applied to all major receivables, including trade, lease, and notes receivable. In addition, we follow a policy that consistently applies reserve rates based on the outstanding accounts receivable and historical experience. Actual collections can differ from our historical experience and if economic or business conditions deteriorate significantly, adjustments to these reserves may be required.

The accounts receivable allowance totaled \$3.5 million and \$2.9 million at June 1, 2019 and June 2, 2018, respectively. As a percentage of gross accounts receivable, these allowances totaled 1.4 percent and 1.3 percent for fiscal 2019 and fiscal 2018, respectively. The year-over-year increase in the allowance is primarily due to increased general and customer-specific reserves in the current year, relative to the prior year.

### **Goodwill and Indefinite-lived Intangibles**

The carrying value of goodwill and indefinite-lived intangible assets as of June 1, 2019 and June 2, 2018, was \$381.9 million and \$382.2 million, respectively. Goodwill and indefinite-lived intangible assets are tested for impairment annually, or more frequently, if changes in circumstances or the occurrence of events suggest that impairment exists. The Company performs the annual goodwill and indefinite-lived intangible assets impairment testing during the fourth quarter of the fiscal year.

The Company completed the required annual goodwill impairment test in the fourth quarter of fiscal 2019, as of March 31, 2019, performing a quantitative and qualitative impairment test for all goodwill reporting units and other indefinite-lived intangible assets. For the reporting units that the Company elected to test qualitatively, as is permitted under *ASU 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, the Company concluded it to be more likely than not that their estimated fair values are greater than their respective carrying values. In performing the quantitative impairment test, the Company determined that the fair value of the reporting units exceeded the carrying amount and, as such, the reporting units were not impaired and the second step of the impairment test was not necessary.

The Company performed a sensitivity analysis over key valuation assumptions. The carrying value of the Company's Retail reporting unit was \$249.9 million as of June 1, 2019. The calculated fair value of the reporting unit was \$282.6 million, which represents an excess fair value of \$32.7 million or 13%. Due to the level that the reporting unit fair values exceeded the carrying amounts and the results of the sensitivity analysis, the Company may need to record an impairment charge if the operating results of its Retail reporting unit were to decline in future periods.

The test for impairment requires the Company to make several estimates about fair value, most of which are based on projected future cash flows and market valuation multiples. We estimated the fair value of the reporting units using a discounted cash flow analysis and reconciled the sum of the fair values of the reporting units to total market capitalization of the Company, plus a control premium. The control premium represents an estimate associated with obtaining control of the Company in an acquisition. The discounted cash flow analysis used the present value of projected cash flows and a residual value.

The Company employs a market-based approach in selecting the discount rates used in our analysis. The discount rates selected represent market rates of return equal to what the Company believes a reasonable investor would expect to achieve on investments of similar size to the Company's reporting units. The Company believes the discount rates selected in the quantitative assessment are appropriate in that, in all cases, they meet or exceed the estimated weighted average cost of capital for our business as a whole. The results of the impairment test are sensitive to changes in the discount rates and changes in the discount rate may result in future impairment.

In fiscal 2019, the Company performed only quantitative assessments in testing indefinite-lived intangible assets for impairment. The quantitative impairment test is based on the relief from royalty method to determine the fair value of the indefinite-lived intangible assets, which is both a market-based approach and an income-based approach. The relief from royalty method focuses on the level of royalty payments that the user of an intangible asset would have to pay a third party for the use of the asset if it were not owned by the user. This method involves estimating theoretical future after tax royalty payments based on the Company's forecasted revenues attributable to the trade names. These payments are then discounted to present value utilizing a discount rate that considers the after-corporate tax required rate of return applicable to the asset. The projected revenues reflect the best estimate of management for the trade names; however, actual revenues could differ from our estimates.

The discount rates selected represent market rates of return equal to what the Company believes a reasonable investor would expect to achieve on investments of similar size and type to the indefinite-lived intangible asset being tested. The Company believes the discount rates selected are appropriate in that, in all cases, they exceed the estimated weighted average cost of capital for our business as a whole. The results of the impairment test are sensitive to changes in the discount rates and changes in the discount rate may result in future impairment. The Company performed a sensitivity analysis over key valuation assumptions.

The carrying value of the Company's DWR trade name indefinite-lived intangible asset was \$55.1 million as of June 1, 2019. The calculated fair value of the reporting unit was \$63.2 million which represents an excess fair value of \$8.1 million or 14.6%. If the residual cash flows related to the Company's DWR trade name were to decline in future periods, the Company may need to record an impairment charge.

During fiscal 2017, the Company recognized pre-tax asset impairment expenses totaling \$7.1 million associated with the Nemschoff trade name, after which there is no remaining carrying value for this trade name. This impairment expense was incurred due to the fact that the forecasted revenue and profitability of the business did not support the recorded fair value for the trade name. There was no impairment indicated on indefinite-lived intangible assets in fiscal 2019 or fiscal 2018 as a result of our impairment testing.

### ***Long-lived Assets***

The Company evaluates other long-lived assets and acquired business units for indicators of impairment when events or circumstances indicate that an impairment risk may be present. The judgments regarding the existence of impairment are based on market conditions, operational performance, and estimated future cash flows. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded to adjust the asset to its estimated fair value.

### ***Warranty Reserves***

The Company stands behind Company products and the promises it makes to customers. From time to time, quality issues arise resulting in the need to incur costs to correct problems with products or services. The Company has established warranty reserves for the various costs associated with these obligations. General warranty reserves are based on historical claims experience and periodically adjusted for business levels. Specific reserves are established once an issue is identified. The valuation of such reserves is based on the estimated costs to correct the problem. Actual costs may vary and may result in an adjustment to these reserves.

## Inventory Reserves

Inventories are valued at the lower of cost or net realizable value. 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. The Company establishes reserves for excess and obsolete inventory, based on prevailing circumstances and judgment for consideration of current events, such as economic conditions that may affect inventory. The reserve required to record inventory at lower of cost or market may be adjusted in response to changing conditions.

## Income Taxes

Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates we are using to manage the underlying businesses.

See Note 11 of the Consolidated Financial Statements for information regarding the Company's uncertain tax positions.

The Company has net operating loss (NOL) carryforwards available in certain jurisdictions to reduce future taxable income. The Company also has tax credits available in certain jurisdictions to reduce future tax due. Future tax benefits for NOL carryforwards and tax credits are recognized to the extent that realization of these benefits is considered more likely than not. This determination is based on the expectation that related operations will be sufficiently profitable or various tax planning strategies available to us.

## Self-Insurance Reserves

With the assistance of independent actuaries, reserves are established for workers' compensation and general liability exposures. The reserves are established based on expected future claims for incurred losses. The Company also establishes reserves for health, prescription drugs and dental benefit exposures based on historical claims information along with certain assumptions about future trends. The methods and assumptions used to determine the liabilities are applied consistently, although, actual claims experience can vary. The Company also maintains insurance coverage for certain risk exposures through traditional, premium-based insurance policies. The Company's health benefit and auto liability retention levels do not include an aggregate stop loss policy. The Company's retention levels designated within significant insurance arrangements as of June 1, 2019, are as follows:

(In millions)	Retention Level (per occurrence)	
General liability	\$	1.00
Auto liability	\$	1.00
Workers' compensation	\$	0.75
Health benefit	\$	0.50

## Pension and other Post-Retirement Benefits

The determination of the obligation and expense for pension and other post-retirement benefits depends on certain actuarial assumptions. Among the most significant of these assumptions are the discount rate and expected long-term rate of return on plan assets. We determine these assumptions as follows.

- *Discount Rate* — This assumption is established at the end of the fiscal year based on high-quality corporate bond yields. The Company utilizes the services of an independent actuarial firm to assist in determining the rate. Future expected actuarially determined cash flows for the Company's domestic pension, international pension and post-retirement medical plans are individually discounted at the spot rates under the Mercer Yield Curve to arrive at the plan's obligations as of the measurement date.
- *Expected Long-Term Rate of Return* — The Company bases this assumption on our long-term assumed rates of return for equities and fixed income securities, weighted by the allocation of the invested assets of the pension plan. The Company considers likely returns and risk factors specific to the various classes of investments and advice from independent actuaries in establishing this rate. Changes in the investment allocation of plan assets would impact this assumption. A shift to a higher relative percentage of fixed income securities, for example, would result in a lower assumed rate.

While the above assumption represents the long-term market return expectation, actual asset returns can and do differ from year-to-year. Such differences give rise to actuarial gains and losses. In years where actual market returns are lower than the assumed rate, an actuarial loss is generated. Conversely, an actuarial gain results when actual market returns exceed the assumed rate in a given year.



Changes in the discount rate and return on assets can have a significant effect on the expense and obligations related to our pension plans. The Company cannot reasonably predict if adjustments impacting the expense or obligation from changes in these estimates will be significant. Both the June 1, 2019 pension funded status and fiscal 2020 expense are affected by year end fiscal 2019 discount rate and expected return on assets assumptions. Any change to these assumptions will be specific to the time periods noted and may not be additive, so the impact of changing multiple factors simultaneously cannot be calculated by combining the individual sensitivities shown.

As of June 1, 2019, and June 2, 2018, the net actuarial loss associated with the employee pension and post-retirement benefit plans totaled approximately \$48 million and \$40 million, respectively.

The effect of a 1 percent increase/(decrease) in discount rates and expected return on assets on the projected fiscal 2020 expense and the pension obligation as at June 1, 2019 is shown below:

Assumption	2020 Expense		June 1, 2019 Obligation	
	U.S.	International	U.S.	International
Discount rate	—	\$(1.4) / 1.6	\$(0.3) / 0.3	\$(19.6) / 25.8
Expected return on assets	—	\$(1.0) / 1.0	—	—

For purposes of determining annual net pension expense, the Company uses a calculated method for determining the market-related value of plan assets. Under this method, the Company recognizes the change in fair value of plan assets systematically over a five-year period. Accordingly, a portion of the net actuarial loss is deferred. As of June 1, 2019, the deferred net actuarial loss (i.e., the portion of the total net actuarial loss not subject to amortization) was \$3.2 million.

Refer to Note 8 of the Consolidated Financial Statements for more information regarding costs and assumptions used for employee benefit plans.

### **Stock-Based Compensation**

The Company views stock-based compensation as a key component of total compensation for certain employees, non-employee directors and officers. The stock-based compensation programs have included grants of stock options, restricted stock units, performance share units, and employee stock purchases. The Company recognizes expense related to each of these share-based arrangements. The Black-Scholes option pricing model is used in estimating the fair value of stock options issued in connection with compensation programs. This pricing model requires the use of several input assumptions. Among the most significant of these assumptions are the expected volatility of the common stock price and the expected timing of future stock option exercises.

- *Expected Volatility* — This represents a measure, expressed as a percentage, of the expected fluctuation in the market price of the Company's common stock. As a point of reference, a high volatility percentage would assume a wider expected range of market returns for a particular security. All other assumptions held constant, this would yield a higher stock option valuation than a calculation using a lower measure of volatility. In measuring the fair value of the majority of stock options issued during fiscal 2019, we utilized an expected volatility of 27 percent.
- *Expected Term of Options* — This assumption represents the expected length of time between the grant date of a stock option and the date at which it is exercised (option life). The Company assumed an average expected term of 4.4 years in calculating the fair values of the majority of stock options issued during fiscal 2019.

Refer to Note 10 of the Consolidated Financial Statements for further discussion on our stock-based compensation plans.

### **Contingencies**

In the ordinary course of business, the Company encounters matters that raise the potential for contingent liabilities. In evaluating these matters for accounting treatment and disclosure, the Company is required to apply judgment to determine the probability that a liability has been incurred. The Company is also required to measure, if possible, the dollar value of such liabilities in determining whether or not recognition in our financial statements is required. This process involves the use of estimates which may differ from actual outcomes. Refer to Note 13 of the Consolidated Financial Statements for more information relating to contingencies.

### **New Accounting Standards**

Refer to Note 1 of the Consolidated Financial Statements for information related to new accounting standards.

## Forward Looking Statements

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This information contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act, as amended, that are based on management's beliefs, assumptions, current expectations, estimates, and projections about the office furniture industry, the economy, and the Company itself. Words like "anticipates," "believes," "confident," "estimates," "expects," "forecasts," "likely," "plans," "projects," "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 recovery in the U.S and in our International markets, the increase in white-collar employment, the willingness of customers to undertake capital expenditures, the types of products purchased by customers, competitive-pricing pressures, the availability and pricing of raw materials, our reliance on a limited number of suppliers, our ability to expand globally given the risks associated with regulatory and legal compliance challenges and accompanying currency fluctuations, 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 retail 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 7A Quantitative and Qualitative Disclosures About Market Risk

The Company manufactures, markets, and sells its products throughout the world and, as a result, is subject to changing economic conditions, which could reduce the demand for its products.

### **Direct Material Costs**

The Company is exposed to risks arising from price changes for certain direct materials and assembly components used in its operations. The largest of such costs incurred by the Company are for steel, plastics, textiles, wood particleboard, and aluminum components. The impact from changes in all commodity prices increased the Company's costs by approximately \$16 million during fiscal 2019 compared to the prior year. The impact from changes in commodity prices increased the Company's costs by approximately \$10 million during fiscal 2018 as compared to fiscal 2017. Note that these changes include the impact of Chinese tariffs on the Company's direct material costs.

The market prices for commodities will fluctuate over time and the Company acknowledges that such changes are likely to impact its costs for key direct materials and assembly components. Consequently, it views the prospect of such changes as an outlook risk to the business.

### **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 effected 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.

In the normal course of business, the Company enters into contracts denominated in foreign currencies. The principal foreign currencies in which the Company conducts its business are the British pound sterling, euro, Canadian dollar, Japanese yen, Mexican peso, Hong Kong dollar and Chinese renminbi. As of June 1, 2019, the Company had outstanding, thirteen forward currency instruments designed to offset either net asset or net liability exposure that is denominated in non-functional currencies. Four forward contracts were placed to offset a 21.5 million U.S. dollar-denominated net asset exposure. Two forward contracts were placed to offset a 21 million euro-denominated net asset exposure. One forward contract was placed to offset an 8 million South African rand-denominated net asset exposure. One forward contract was placed to offset an \$0.6 million Canadian dollar-denominated net asset exposure. Five forward contracts were placed to offset a 14.0 million U.S. dollar-denominated net liability exposure. One forward contract was placed to offset a 1.5 million euro-denominated net liability exposure.

As of June 2, 2018, the Company had outstanding, thirteen forward currency instruments designed to offset either net asset or net liability exposure that is denominated in non-functional currencies. Three forward contracts were placed to offset a 18.5 million U.S. dollar-denominated net liability exposure. Two forward contracts were placed to offset a 13.7 million euro-denominated net asset exposure. One forward contract was placed to offset an 10.5 million South African rand-denominated net asset exposure. Five forward contracts were placed to offset a 13.0 million U.S. dollar-denominated net liability exposure. One forward contract was placed to offset a 1.2 million euro-denominated net liability exposure.

The cost of the foreign currency hedges and remeasuring all foreign currency transactions into the appropriate functional currency was a net gain of \$0.3 million in fiscal 2019 in contrast to net loss of \$0.4 million in fiscal 2018 included in net earnings. These amounts are included in "Other Expenses (Income)" in the Consolidated Statements of Comprehensive Income. Additionally, the cumulative effect of translating the balance sheet and income statement accounts from the functional currency into the United States dollar decreased the accumulated comprehensive loss component of total stockholders' equity by \$14.2 million and \$2.7 million as of the end of as of the end of fiscal 2019 and 2018, respectively.

### **Interest Rate Risk**

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 agreement was 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 agreement 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 agreement is recognized as an adjustment to interest expense.

These interest rate swap derivative instruments are held and used by the Company as a tool for managing interest rate risk. They are not used for trading or speculative purposes. The counterparties to the swap instruments are large financial institutions that the Company believes are of high-quality creditworthiness. While the Company may be exposed to potential losses due to the credit risk of non-performance by these counterparties, such losses are not anticipated.

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 percent fixed interest rate plus applicable margin under the agreement as of the forward start date.

In June 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 amount from a LIBOR-based floating interest rate plus applicable margin to a 2.387 percent fixed interest rate plus applicable margin under the agreement as of the forward start date.

The fair market value of the effective interest rate swap instruments was a net liability of \$1.2 million at June 1, 2019 compared to a net asset of \$15.0 million at June 2, 2018. All cash flows related to the Company's interest rate swap instruments are denominated in U.S. dollars. For further information, refer to Notes 6 and 12 of the Consolidated Financial Statements.

Expected cash outflows (notional amounts) over the next five years and thereafter related to debt instruments are as follows.

(In millions)	2020	2021	2022	2023	2024	Thereafter	Total <sup>(1)</sup>
<b>Long-Term Debt - Fixed rate:</b>							
Interest rate = 6.00%	\$ —	\$ 50.0	\$ —	\$ —	\$ —	\$ —	\$ 50.0
Interest rate = 1.949% <sup>(2)</sup>	\$ —	\$ —	\$ 150.0	\$ —	\$ —	\$ —	\$ 150.0
Interest rate = 2.387% <sup>(2)</sup>	\$ —	\$ —	\$ 75.0	\$ —	\$ —	\$ —	\$ 75.0

(1) Amount does not include the recorded fair value of the swap instruments, which totaled a \$1.2 million net liability and a \$15.0 million net asset at the end of fiscal 2019 and 2018, respectively.

(2) The Company's revolving credit facility has a variable interest rate, but due to the interest rate swaps, the rate on \$150.0 million and \$75.0 million will be fixed at 1.949% and 2.387%, respectively as demonstrated in the table above.

## Item 8 Financial Statements and Supplementary Data

### Herman Miller, Inc.

#### Consolidated Statements of Comprehensive Income

(In millions, except per share data)	Fiscal Years Ended		
	June 1, 2019	June 2, 2018	June 3, 2017
Net sales	\$ 2,567.2	\$ 2,381.2	\$ 2,278.2
Cost of sales	1,637.3	1,508.2	1,414.0
<b>Gross margin</b>	<b>929.9</b>	<b>873.0</b>	<b>864.2</b>
Operating expenses:			
Selling, general and administrative	639.3	615.3	587.5
Restructuring and impairment expenses	10.2	5.7	12.5
Design and research	76.9	73.1	73.1
Total operating expenses	726.4	694.1	673.1
<b>Operating earnings</b>	<b>203.5</b>	<b>178.9</b>	<b>191.1</b>
Other expenses (income):			
Interest expense	12.1	13.5	15.2
Interest and other investment income	(2.1)	(4.4)	(2.2)
Other, net	(1.6)	1.7	0.5
Net other expenses	8.4	10.8	13.5
<b>Earnings before income taxes</b>	<b>195.1</b>	<b>168.1</b>	<b>177.6</b>
Income tax expense	39.6	42.4	55.1
Equity earnings from nonconsolidated affiliates, net of tax	5.0	3.0	1.6
<b>Net earnings</b>	<b>160.5</b>	<b>128.7</b>	<b>124.1</b>
Net earnings attributable to noncontrolling interests	—	0.6	0.2
<b>Net earnings attributable to Herman Miller, Inc.</b>	<b>\$ 160.5</b>	<b>\$ 128.1</b>	<b>\$ 123.9</b>
Earnings per share — basic	\$ 2.72	\$ 2.15	\$ 2.07
Earnings per share — diluted	\$ 2.70	\$ 2.12	\$ 2.05
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	\$ (14.2)	\$ 2.7	\$ (7.2)
Pension and post-retirement liability adjustments	(7.8)	10.4	(12.7)
Unrealized (losses) gains on interest rate swap agreement	(12.3)	7.8	2.1
Unrealized holding gain on available for sale securities	—	—	0.1
Total other comprehensive (loss) income	(34.3)	20.9	(17.7)
<b>Comprehensive income</b>	<b>126.2</b>	<b>149.6</b>	<b>106.4</b>
Comprehensive income attributable to noncontrolling interests	—	0.6	0.2
<b>Comprehensive income attributable to Herman Miller, Inc.</b>	<b>\$ 126.2</b>	<b>\$ 149.0</b>	<b>\$ 106.2</b>

**Herman Miller, Inc.**  
**Consolidated Balance Sheets**

(In millions, except share and per share data)

	June 1, 2019	June 2, 2018
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 159.2	\$ 203.9
Marketable securities	8.8	8.6
Accounts and notes receivable, less allowances of \$3.8 in 2019 and \$3.3 in 2018	218.0	217.4
Unbilled accounts receivable	34.3	1.9
Inventories, net	184.2	162.4
Prepaid taxes	9.2	9.9
Other	47.6	41.3
<b>Total Current Assets</b>	<b>661.3</b>	<b>645.4</b>
Property and Equipment:		
Land and improvements	24.2	24.4
Buildings and improvements	267.6	238.6
Machinery and equipment	733.0	700.0
Construction in progress	59.9	57.8
<b>Gross Property and Equipment</b>	<b>1,084.7</b>	<b>1,020.8</b>
Less: Accumulated depreciation	(736.1)	(689.4)
<b>Net Property and Equipment</b>	<b>348.6</b>	<b>331.4</b>
Goodwill	303.8	304.1
Indefinite-lived intangibles	78.1	78.1
Other amortizable intangibles, net	41.1	41.3
Other assets	136.4	79.2
<b>Total Assets</b>	<b>\$ 1,569.3</b>	<b>\$ 1,479.5</b>
<b>Liabilities, Redeemable Noncontrolling Interests and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable	\$ 177.7	\$ 171.4
Accrued compensation and benefits	85.5	86.3
Accrued warranty	53.1	51.5
Customer deposits	30.7	27.6
Other accrued liabilities	99.1	77.0
<b>Total Current Liabilities</b>	<b>446.1</b>	<b>413.8</b>
Long-term debt, less current portion	281.9	275.0
Pension and post-retirement benefits	24.5	15.6
Other liabilities	77.0	79.8
<b>Total Liabilities</b>	<b>829.5</b>	<b>784.2</b>
<b>Redeemable noncontrolling interests</b>	<b>20.6</b>	<b>30.5</b>
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, 58,794,148 and 59,230,974 shares issued and outstanding in 2019 and 2018, respectively)	11.7	11.7
Additional paid-in capital	89.8	116.6
Retained earnings	712.7	598.3
Accumulated other comprehensive loss	(94.2)	(61.3)
Key executive deferred compensation	(0.8)	(0.7)
<b>Herman Miller, Inc. Stockholders' Equity</b>	<b>719.2</b>	<b>664.6</b>
Noncontrolling interests	—	0.2
<b>Total Stockholders' Equity</b>	<b>719.2</b>	<b>664.8</b>
<b>Total Liabilities, Redeemable Noncontrolling Interests and Stockholders' Equity</b>	<b>\$ 1,569.3</b>	<b>\$ 1,479.5</b>

**Herman Miller, Inc.**  
**Consolidated Statements of Stockholders' Equity**

(In millions, except share and per share data)	Preferred Stock	Common Stock		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
		Shares	Amount							
<b>May 28, 2016</b>	<b>\$ —</b>	<b>59,868,276</b>	<b>\$ 12.0</b>	<b>\$ 142.7</b>	<b>\$ 435.3</b>	<b>\$ (64.5)</b>	<b>\$ (1.1)</b>	<b>\$ 524.4</b>	<b>\$ 0.3</b>	<b>\$ 524.7</b>
Net earnings	—	—	—	—	123.9	—	—	123.9	—	123.9
Other comprehensive loss	—	—	—	—	—	(17.7)	—	(17.7)	—	(17.7)
Stock-based compensation expense	—	—	—	9.1	—	—	—	9.1	(0.1)	9.0
Excess tax benefit for stock-based compensation	—	—	—	(0.6)	—	—	—	(0.6)	—	(0.6)
Exercise of stock options	—	327,299	—	9.4	—	—	—	9.4	—	9.4
Restricted and performance stock units released	—	207,776	—	0.3	—	—	—	0.3	—	0.3
Employee stock purchase plan issuances	—	68,047	—	1.9	—	—	—	1.9	—	1.9
Repurchase and retirement of common stock	—	(765,556)	(0.1)	(23.7)	—	—	—	(23.8)	—	(23.8)
Directors' fees	—	9,982	—	0.3	—	—	—	0.3	—	0.3
Deferred compensation plan	—	—	—	(0.1)	—	—	0.1	—	—	—
Dividends declared (\$0.68 per share)	—	—	—	—	(40.9)	—	—	(40.9)	—	(40.9)
Redemption value adjustment	—	—	—	—	1.2	—	—	1.2	—	1.2
<b>June 3, 2017</b>	<b>\$ —</b>	<b>59,715,824</b>	<b>\$ 11.9</b>	<b>\$ 139.3</b>	<b>\$ 519.5</b>	<b>\$ (82.2)</b>	<b>\$ (1.0)</b>	<b>\$ 587.5</b>	<b>\$ 0.2</b>	<b>\$ 587.7</b>
Net earnings	—	—	—	—	128.1	—	—	128.1	—	128.1
Other comprehensive income	—	—	—	—	—	20.9	—	20.9	—	20.9
Stock-based compensation expense	—	—	—	7.0	—	—	—	7.0	—	7.0
Exercise of stock options	—	538,259	—	14.6	—	—	—	14.6	—	14.6
Restricted and performance stock units released	—	256,884	0.1	0.2	—	—	—	0.3	—	0.3
Employee stock purchase plan issuances	—	67,335	—	2.0	—	—	—	2.0	—	2.0
Repurchase and retirement of common stock	—	(1,356,156)	(0.3)	(46.2)	—	—	—	(46.5)	—	(46.5)
Directors' fees	—	8,828	—	0.4	—	—	—	0.4	—	0.4
Deferred compensation plan	—	—	—	(0.4)	—	—	0.3	(0.1)	—	(0.1)
Dividends declared (\$0.72 per share)	—	—	—	—	(43.2)	—	—	(43.2)	—	(43.2)
Redemption value adjustment	—	—	—	—	(6.2)	—	—	(6.2)	—	(6.2)
Cumulative effect of accounting changes	—	—	—	(0.3)	0.1	—	—	(0.2)	—	(0.2)
<b>June 2, 2018</b>	<b>\$ —</b>	<b>59,230,974</b>	<b>\$ 11.7</b>	<b>\$ 116.6</b>	<b>\$ 598.3</b>	<b>\$ (61.3)</b>	<b>\$ (0.7)</b>	<b>\$ 664.6</b>	<b>\$ 0.2</b>	<b>\$ 664.8</b>
Net earnings	—	—	—	—	160.5	—	—	160.5	—	160.5
Other comprehensive loss	—	—	—	—	—	(34.3)	—	(34.3)	—	(34.3)
Stock-based compensation expense	—	—	—	8.4	—	—	—	8.4	(0.2)	8.2
Exercise of stock options	—	347,248	0.1	10.0	—	—	—	10.1	—	10.1
Restricted and performance stock units released	—	468,807	0.1	0.2	—	—	—	0.3	—	0.3
Employee stock purchase plan issuances	—	62,957	—	1.9	—	—	—	1.9	—	1.9
Repurchase and retirement of common stock	—	(1,326,023)	(0.2)	(47.6)	—	—	—	(47.8)	—	(47.8)
Directors' fees	—	10,185	—	0.3	—	—	—	0.3	—	0.3
Deferred compensation plan	—	—	—	—	—	—	(0.1)	(0.1)	—	(0.1)
Dividends declared (\$0.79 per share)	—	—	—	—	(46.6)	—	—	(46.6)	—	(46.6)
Cumulative effect of accounting changes	—	—	—	—	0.5	1.4	—	1.9	—	1.9
<b>June 1, 2019</b>	<b>\$ —</b>	<b>58,794,148</b>	<b>\$ 11.7</b>	<b>\$ 89.8</b>	<b>\$ 712.7</b>	<b>\$ (94.2)</b>	<b>\$ (0.8)</b>	<b>\$ 719.2</b>	<b>\$ —</b>	<b>\$ 719.2</b>

**Herman Miller, Inc.**  
**Consolidated Statements of Cash Flows**

(In millions)	Fiscal Years Ended		
	June 1, 2019	June 2, 2018	June 3, 2017
<b>Cash Flows from Operating Activities:</b>			
Net earnings	\$ 160.5	\$ 128.7	\$ 124.1
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation expense	65.9	60.9	52.9
Amortization expense	6.2	6.0	6.0
Earnings from nonconsolidated affiliates net of dividends received	(2.1)	(0.2)	(1.5)
Investment fair value adjustment	(2.1)	—	—
Loss (gain) on sales of property and dealers	0.8	(0.5)	—
Deferred taxes	0.8	(0.8)	14.8
Pension contributions	(0.9)	(13.4)	(1.1)
Pension and post-retirement expenses	1.2	2.9	0.5
Restructuring and impairment expenses	10.2	5.7	12.5
Stock-based compensation	7.3	7.7	8.7
Increase in long-term liabilities	1.6	3.4	6.2
Changes in current assets and liabilities:			
(Increase) decrease in accounts receivable & unbilled accounts receivable	(24.8)	(33.1)	17.3
Increase in inventories	(31.9)	(12.4)	(29.9)
Increase in prepaid expenses and other	(0.6)	(3.0)	(0.5)
Increase (decrease) in accounts payable	0.5	16.0	(11.2)
(Decrease) increase in accrued liabilities	22.7	(0.3)	0.8
Other	1.1	(1.1)	2.5
<b>Net Cash Provided by Operating Activities</b>	<b>216.4</b>	<b>166.5</b>	<b>202.1</b>
<b>Cash Flows from Investing Activities:</b>			
Net receipts (advances) from notes receivable	1.1	(1.1)	2.4
Marketable securities purchases	(1.9)	(1.0)	(2.0)
Marketable securities sales	1.7	1.0	0.9
Capital expenditures	(85.8)	(70.6)	(87.3)
Proceeds from sales of property and dealers	0.5	2.1	—
Payments of loans on cash surrender value of life insurance	—	—	(15.3)
Proceeds from life insurance policy	—	8.1	—
Purchase of HAY licensing agreement	(4.8)	—	—
Equity investment in non-controlled entities	(73.6)	—	(13.1)
Other, net	(2.2)	(1.2)	(1.9)
<b>Net Cash Used in Investing Activities</b>	<b>(165.0)</b>	<b>(62.7)</b>	<b>(116.3)</b>
<b>Cash Flows from Financing Activities:</b>			
Repayments of long-term debt	—	(150.0)	—
Proceeds from credit facility	—	340.4	794.4
Repayments of credit facility	—	(115.4)	(816.4)
Dividends paid	(45.6)	(42.4)	(39.4)
Common stock issued	12.3	17.0	11.7
Common stock repurchased and retired	(47.9)	(46.5)	(23.7)
Purchase of noncontrolling interests	(10.1)	(1.0)	(1.5)
Other, net	(0.6)	0.4	0.3
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>(91.9)</b>	<b>2.5</b>	<b>(74.6)</b>
Effect of exchange rate changes on cash and cash equivalents	(4.2)	1.4	0.1
<b>Net Increase In Cash and Cash Equivalents</b>	<b>(44.7)</b>	<b>107.7</b>	<b>11.3</b>
Cash and cash equivalents, Beginning of Year	203.9	96.2	84.9
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 159.2</b>	<b>\$ 203.9</b>	<b>\$ 96.2</b>
<b>Other Cash Flow Information</b>			
Interest paid	\$ 11.5	\$ 16.4	\$ 13.4
Income taxes paid, net of cash received	\$ 41.0	\$ 34.2	\$ 35.6



**Notes to the Consolidated Financial Statements**  
**Table of Contents**

	<u>Page No.</u>
Note 1 - <a href="#">Significant Accounting and Reporting Policies</a>	<a href="#">44</a>
Note 2 - <a href="#">Revenue from Contracts with Customers</a>	<a href="#">52</a>
Note 3 - <a href="#">Acquisitions and Divestitures</a>	<a href="#">56</a>
Note 4 - <a href="#">Inventories</a>	<a href="#">56</a>
Note 5 - <a href="#">Investments in Nonconsolidated Affiliates</a>	<a href="#">57</a>
Note 6 - <a href="#">Long-Term Debt</a>	<a href="#">58</a>
Note 7 - <a href="#">Operating Leases</a>	<a href="#">60</a>
Note 8 - <a href="#">Employee Benefit Plans</a>	<a href="#">61</a>
Note 9 - <a href="#">Common Stock and Per Share Information</a>	<a href="#">64</a>
Note 10 - <a href="#">Stock-Based Compensation</a>	<a href="#">65</a>
Note 11 - <a href="#">Income Taxes</a>	<a href="#">69</a>
Note 12 - <a href="#">Fair Value of Financial Instruments</a>	<a href="#">72</a>
Note 13 - <a href="#">Warranties, Guarantees, and Contingencies</a>	<a href="#">76</a>
Note 14 - <a href="#">Operating Segments</a>	<a href="#">77</a>
Note 15 - <a href="#">Accumulated Other Comprehensive Loss</a>	<a href="#">80</a>
Note 16 - <a href="#">Redeemable Noncontrolling Interests</a>	<a href="#">81</a>
Note 17 - <a href="#">Restructuring and Impairment Activities</a>	<a href="#">81</a>
Note 18 - <a href="#">Variable Interest Entities</a>	<a href="#">82</a>
Note 19 - <a href="#">Quarterly Financial Data (Unaudited)</a>	<a href="#">83</a>

## 1. Significant Accounting and Reporting Policies

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The following is a summary of significant accounting and reporting policies not reflected elsewhere in the accompanying financial statements.

### ***Principles of Consolidation***

The Consolidated Financial Statements include the accounts of Herman Miller, Inc. and its controlled domestic and foreign subsidiaries. The consolidated entities are collectively referred to as “the Company.” All intercompany accounts and transactions have been eliminated in the Consolidated Financial Statements.

### ***Description of Business***

The Company researches, designs, manufactures, sells, and distributes interior furnishings, 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.

### ***Fiscal Year***

The Company's fiscal year ends on the Saturday closest to May 31. The fiscal years ended June 1, 2019 and June 2, 2018 contained 52 weeks, while the fiscal year ended June 3, 2017 contained 53 weeks.

### ***Foreign Currency Translation***

The functional currency for most of the foreign subsidiaries is their local currency. The cumulative effects of translating the balance sheet accounts from the functional currency into the United States dollar using fiscal year-end exchange rates and translating revenue and expense accounts using average exchange rates for the period is reflected as a component of Accumulated other comprehensive loss in the Consolidated Balance Sheets.

The financial statement impact of gains and losses resulting from remeasuring foreign currency transactions into the appropriate functional currency resulted in a net gain of \$0.3 million and \$0.4 million for the fiscal years ended June 1, 2019 and June 2, 2018, respectively, and a net loss of \$0.7 million for the fiscal year ended June 3, 2017. These amounts are included in “Other, net” in the Consolidated Statements of Comprehensive Income.

### ***Cash Equivalents***

The Company holds cash equivalents as part of its cash management function. Cash equivalents include money market funds and time deposit investments with original maturities of less than three months. The carrying value of cash equivalents, which approximates fair value, totaled \$102.8 million and \$148.8 million as of June 1, 2019 and June 2, 2018, respectively. All cash equivalents are high-credit quality financial instruments, and the amount of credit exposure to any one financial institution or instrument is limited.

### ***Marketable Securities***

The Company maintains a portfolio of marketable securities primarily comprised of mutual funds. These mutual funds are comprised of both equity and fixed income funds. These investments are held by the Company's wholly owned insurance captive and are considered “available-for-sale” securities. Accordingly, they have been recorded at fair value based on quoted market prices. Net unrealized holding gains or losses related to the equity mutual funds are recorded through net income while net unrealized holding gains or losses related to the fixed income mutual funds are recorded through other comprehensive income.

All marketable security transactions are recognized on the trade date. Realized gains and losses on disposal of available-for-sale investments are included in “Interest and other investment income” in the Consolidated Statements of Comprehensive Income. See Note 12 of the Consolidated Financial Statements for additional disclosures of marketable securities.

### ***Accounts Receivable Allowances***

Reserves for uncollectible accounts receivable balances are based on known customer exposures, historical credit experience and the specific identification of other potentially uncollectible accounts. Balances are written off against the reserve once the Company determines the probability of collection to be remote. The Company generally does not require collateral or other security on trade accounts receivable.

### **Concentrations of Credit Risk**

The Company's trade receivables are primarily due from independent dealers who, in turn, carry receivables from their customers. The Company monitors and manages the credit risk associated with individual dealers and direct customers where applicable. Dealers are responsible for assessing and assuming credit risk of their customers and may require their customers to provide deposits, letters of credit or other credit enhancement measures. Some sales contracts are structured such that the customer payment or obligation is direct to the Company. In those cases, the Company may assume the credit risk. Whether from dealers or customers, the Company's trade credit exposures are not concentrated with any particular entity.

### **Inventories**

Inventories are valued at the lower of cost or market and include material, labor and overhead. Inventory cost is determined using the last-in, first-out (LIFO) method at manufacturing facilities in Michigan, whereas inventories of the Company's other locations are valued using the first-in, first-out (FIFO) method. The Company establishes reserves for excess and obsolete inventory based on prevailing circumstances and judgment for consideration of current events, such as economic conditions, that may affect inventory. The reserve required to record inventory at lower of cost or net realizable value may be adjusted in response to changing conditions. Further information on the Company's recorded inventory balances can be found in Note 4 of the Consolidated Financial Statements.

### **Goodwill and Indefinite-lived Intangible Assets**

Goodwill is tested for impairment at the reporting unit level annually, or more frequently, when events or changes in circumstances indicate that the fair value of a reporting unit has more likely than not declined below its carrying value. A reporting unit is defined as an operating segment or one level below an operating segment. When testing goodwill for impairment, the Company may first assess qualitative factors. If an initial qualitative assessment identifies that it is more likely than not that the carrying value of a reporting unit exceeds its estimated fair value, additional quantitative testing is performed. The Company may also elect to skip the qualitative testing and proceed directly to the quantitative testing. If the quantitative testing indicates that goodwill is impaired, the carrying value of goodwill is written down to fair value.

To estimate the fair value of each reporting unit when performing the quantitative testing, the Company utilizes a weighting of the income method and the market method. The income method is based on a discounted future cash flow approach that uses a number of estimates, including revenue based on assumed growth rates, estimated costs and discount rates based on the reporting unit's weighted average cost of capital. Growth rates for each reporting unit are determined based on internal estimates, historical data and external sources. The growth estimates are also used in planning for the Company's long-term and short-term business planning and forecasting. We test the reasonableness of the inputs and outcomes of our discounted cash flow analysis against comparable market data. The market method is based on financial multiples of companies comparable to each reporting unit and applies a control premium. The carrying value of each reporting unit represents the assignment of various assets and liabilities, excluding corporate assets and liabilities, such as cash, investments and debt.

The Company completed the required annual goodwill impairment test in the fourth quarter of fiscal 2019, as of March 31, 2019, performing a quantitative and qualitative impairment test for all goodwill reporting units and other indefinite-lived intangible assets. For the reporting units that the Company elected to test qualitatively, as is permitted under *ASU 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, the Company concluded it to be more likely than not that their estimated fair values are greater than their respective carrying values. In performing the quantitative impairment test, the Company determined that the fair value of the reporting units exceeded the carrying amount and, as such, the reporting units were not impaired and the second step of the impairment test was not necessary.

The Company performed a sensitivity analysis over key valuation assumptions. The carrying value of the Company's Retail reporting unit was \$249.9 million as of June 1, 2019. The calculated fair value of the reporting unit was \$282.6 million, which represents an excess fair value of \$32.7 million or 13%. Due to the level that the reporting unit fair values exceeded the carrying amounts and the results of the sensitivity analysis, the Company may need to record an impairment charge if the operating results of its Retail reporting unit were to decline in future periods.

Intangible assets with indefinite useful lives are not subject to amortization and are evaluated annually for impairment, or more frequently, when events or changes in circumstances indicate that the fair value of an intangible asset may not be recoverable. The Company utilizes the relief from royalty methodology to test for impairment. The primary assumptions for the relief from royalty method include revenue forecasts, earnings forecasts, royalty rates and discount rates. The Company measures and records an impairment loss for the excess of the carrying value of the asset over its fair value. The Company's indefinite-lived intangible assets consist of certain trade names valued at approximately \$78.1 million as of the end of fiscal 2019 and fiscal 2018. These assets have indefinite useful lives.

In fiscal 2019, the Company performed only quantitative assessments in testing indefinite-lived intangible assets for impairment. The carrying value of the Company's DWR trade name indefinite-lived intangible asset was \$55.1 million as of June 1, 2019. The calculated fair value of the DWR trade name was \$63.2 million which represents an excess fair value of \$8.1 million or 14.6%. If the residual cash flows related to the Company's DWR trade name were to decline in future periods, the Company may need to record an impairment charge.

During fiscal 2017, the Company recognized asset impairment expense totaling \$7.1 million associated with the Nemschoff trade name, which was recorded within the North America Contract operating segment. As of the end of fiscal 2017, the carrying value of the Nemschoff trade name was zero. These impairment expenses are recorded in the Restructuring and impairment expenses line item within the Consolidated Statements of Comprehensive Income.

Goodwill and other indefinite-lived assets included in the Consolidated Balance Sheets consist of the following:

(In millions)	Goodwill	Indefinite-lived Intangible Assets	Total Goodwill and Indefinite- lived Intangible Assets
Balance, June 3, 2017	\$ 304.5	\$ 78.1	\$ 382.6
Foreign currency translation adjustments	(0.1)	—	(0.1)
Sale of owned dealer	(0.3)	—	(0.3)
Balance, June 2, 2018	\$ 304.1	\$ 78.1	\$ 382.2
Foreign currency translation adjustments	(0.3)	—	(0.3)
Balance, June 1, 2019	\$ 303.8	\$ 78.1	\$ 381.9

### **Property, Equipment and Depreciation**

Property and equipment are stated at cost. The cost is depreciated over the estimated useful lives of the assets using the straight-line method. Estimated useful lives range from 3 to 10 years for machinery and equipment and do not exceed 40 years for buildings. Leasehold improvements are depreciated over the lesser of the lease term or the useful life of the asset. The Company capitalizes certain costs incurred in connection with the development, testing and installation of software for internal use and cloud computing arrangements. Software for internal use is included in property and equipment and is depreciated over an estimated useful life not exceeding 5 years. Depreciation and amortization expense is included in the Consolidated Statements of Comprehensive Income in the Cost of sales, Selling, general and administrative and Design and research line items.

As of the end of fiscal 2019, outstanding commitments for future capital purchases approximated \$34.7 million.

### **Other Long-Lived Assets**

The Company reviews other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or an asset group may not be recoverable. Each impairment test is based on a comparison of the carrying amount of the asset or asset group to the future undiscounted net cash flows expected to be generated by the asset or asset group, or in some cases, by prices for similar assets. If such assets are considered to be impaired, the impairment amount to be recognized is the amount by which the carrying value of the assets exceeds their fair value.

Amortizable intangible assets within Other amortizable intangibles, net in the Consolidated Balance Sheets consist primarily of patents, trademarks and customer relationships. The customer relationships intangible asset is comprised of relationships with customers, specifiers, networks, dealers and distributors. Refer to the following table for the combined gross carrying value and accumulated amortization for these amortizable intangibles.

(In millions)	June 1, 2019			
	Patent and Trademarks	Customer Relationships	Other	Total
Gross carrying value	\$ 20.1	\$ 55.2	\$ 12.0	\$ 87.3
Accumulated amortization	12.5	27.6	6.1	46.2
Net	\$ 7.6	\$ 27.6	\$ 5.9	\$ 41.1

(In millions)	June 2, 2018			
	Patent and Trademarks	Customer Relationships	Other	Total
Gross carrying value	\$ 22.4	\$ 55.3	\$ 7.5	\$ 85.2
Accumulated amortization	14.7	23.5	5.7	43.9
Net	\$ 7.7	\$ 31.8	\$ 1.8	\$ 41.3

The Company amortizes these assets over their remaining useful lives using the straight-line method over periods ranging from 5 years to 20 years, or on an accelerated basis, to reflect the expected realization of the economic benefits. It is estimated that the weighted-average remaining useful life of patents and trademarks is approximately 6 years and the weighted-average remaining useful life of customer relationships is 7 years.

Estimated amortization expense on existing amortizable intangible assets as of June 1, 2019, for each of the succeeding five fiscal years, is as follows:

(In millions)	
2020	\$ 6.4
2021	\$ 6.3
2022	\$ 6.1
2023	\$ 5.4
2024	\$ 5.1

### **Self-Insurance**

The Company is partially self-insured for general liability, workers' compensation and certain employee health and dental benefits under insurance arrangements that provide for third-party coverage of claims exceeding the Company's loss retention levels. The Company's health benefit and auto liability retention levels do not include an aggregate stop loss policy. The Company's retention levels designated within significant insurance arrangements as of June 1, 2019, are as follows:

(In millions)	Retention Level (per occurrence)
General liability	\$ 1.00
Auto liability	\$ 1.00
Workers' compensation	\$ 0.75
Health benefit	\$ 0.50

The Company accrues for its self-insurance arrangements, as well as reserves for health, prescription drugs, and dental benefit exposures based on actuarially-determined estimates, which are recorded in "Other liabilities" in the Consolidated Balance Sheets. The value of the liability as of June 1, 2019 and June 2, 2018 was \$11.7 million and \$11.2 million, respectively. The actuarial valuations are based on historical information along with certain assumptions about future events. Changes in assumptions for such matters as legal actions, medical costs, payment lag times and changes in actual experience could cause these estimates to change. The general, auto, and workers' compensation liabilities are managed through the Company's wholly-owned insurance captive.

### **Redeemable Noncontrolling Interests**

Certain minority shareholders in the Company's subsidiary Herman Miller Consumer Holdings, Inc. have the right, at specified times over a period of time, to require the Company to acquire portions of their ownership interest in those entities at fair value. Their interests in these subsidiaries are classified outside permanent equity in the Consolidated Balance Sheets and are carried at the current estimated redemption amounts.

The redemption amounts are estimated based on the fair value of the subsidiary, which is determined based on a weighting of the discounted cash flow and market methods. The discounted cash flow analysis uses the present value of projected cash flows and a residual value. A market-based approach is used to determine the discount rate for the discounted cash flow method. Market multiples for comparable companies are used for the market method of valuation. The fair value of the subsidiary is sensitive to changes in projected revenues and costs, the discount rate and the forward multiples of the comparable companies.

Changes in the estimated redemption amounts of the noncontrolling interests, subject to put options, are reflected at each reporting period with a corresponding adjustment to Retained earnings. Future reductions in the carrying amounts are subject to a "floor" amount that is equal to the fair value of the redeemable noncontrolling interests at the time they were originally recorded. See Note 16 of the Consolidated Financial Statements for additional information.

### **Research, Development and Other Related Costs**

Research, development, pre-production and start-up costs are expensed as incurred. Research and development ("R&D") costs consist of expenditures incurred during the course of planned research and investigation aimed at discovery of new knowledge useful in developing new products or processes. R&D costs also include the significant enhancement of existing products or production processes and the implementation of such through design, testing of product alternatives or construction of prototypes. R&D costs included in "Design and research" expense in the accompanying Consolidated Statements of Comprehensive Income are \$58.8 million, \$57.1 million and \$58.6 million, in fiscal 2019, 2018, and 2017, respectively.

Royalty payments made to designers of the Company's products as the products are sold are a variable cost based on product sales. These expenses totaled \$18.1 million, \$16.0 million and \$14.5 million in fiscal years 2019, 2018 and 2017 respectively. They are included in Design and research expense in the accompanying Consolidated Statements of Comprehensive Income.

### **Customer Payments and Incentives**

We offer various sales incentive programs to our customers, such as rebates and discounts. Programs such as rebates and discounts are adjustments to the selling price and are therefore characterized as a reduction to net sales.

### **Revenue Recognition**

The Company adopted ASC 606 - *Revenue from Contracts with Customers* at the beginning of fiscal 2019 using the modified retrospective approach. 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. All necessary changes required by the new standard, including those to the Corporation's accounting policies, controls, and disclosures, have been identified and implemented as of the beginning of fiscal 2019. See Note 2 of the Consolidated Financial Statements for further information regarding the Company's revenue recognition accounting policies.

### **Shipping and Handling Expenses**

The Company records shipping and handling related expenses under the caption Cost of sales in the Consolidated Statements of Comprehensive Income.

### **Cost of Sales**

The Company includes material, labor and overhead in cost of sales. Included within these categories are items such as freight charges, warehousing costs, internal transfer costs and other costs of its distribution network.

### **Selling, General, and Administrative**

The Company includes costs not directly related to the manufacturing of its products in the Selling, general, and administrative line item within the Consolidated Statements of Comprehensive Income. Included in these expenses are items such as compensation expense, rental expense, warranty expense and travel and entertainment expense.

### **Income Taxes**

Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse.

The Company's annual effective tax rate is based on income, statutory tax rates and tax planning strategies available in the various jurisdictions the Company operates. Complex tax laws can be subject to different interpretations by the Company and the respective government authorities. Significant judgment is required in evaluating tax positions and determining our tax expense. Tax positions are reviewed quarterly and tax assets and liabilities are adjusted as new information becomes available.

In evaluating the Company's ability to recover deferred tax assets within the jurisdiction from which they arise, the Company considers all positive and negative evidence. These assumptions require significant judgment about forecasts of future taxable income.

### **Stock-Based Compensation**

The Company has several stock-based compensation plans, which are described in Note 10 of the Consolidated Financial Statements. Our policy is to expense stock-based compensation using the fair-value based method of accounting for all awards granted.

### **Earnings per Share**

Basic earnings per share (EPS) excludes the dilutive effect of common shares that could potentially be issued, due to the exercise of stock options or the vesting of restricted shares and is computed by dividing net earnings by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net earnings by the sum of the weighted-average number of shares outstanding, plus all dilutive shares that could potentially be issued. Refer to Note 9 of the Consolidated Financial Statements for further information regarding the computation of EPS.

### **Comprehensive Income**

Comprehensive income consists of Net earnings, Foreign currency translation adjustments, Unrealized holding gain on available-for-sale securities, Unrealized gains on interest rate swap agreement and Pension and post-retirement liability adjustments. Refer to Note 15 of the Consolidated Financial Statements for further information regarding comprehensive income.

### **Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Fair Value**

The Company classifies and discloses its fair value measurements in one of the following three categories:

- Level 1 — Financial instruments with unadjusted, quoted prices listed on active market exchanges.
- Level 2 — Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. Financial instrument values are determined using prices for recently traded financial instruments with similar underlying terms and direct or indirect observational inputs, such as interest rates and yield curves at commonly quoted intervals.
- Level 3 — Financial instruments not actively traded on a market exchange and there is little, if any, market activity. Values are determined using significant unobservable inputs or valuation techniques.

See Note 12 of the Consolidated Financial Statements for the required fair value disclosures.

### **Derivatives and Hedging**

The Company calculates the fair value of financial instruments using quoted market prices whenever available. The Company utilizes derivatives to manage exposures to foreign currency exchange rates and interest rate risk. The fair values of all derivatives are recognized as assets or liabilities at the balance sheet date. Changes in the fair value of these instruments are reported within Other expenses (income): Other, net in the Consolidated Statements of Comprehensive Income, or Accumulated Other Comprehensive Loss within the Consolidated Balance Sheets, depending on the use of the derivative and whether it qualifies for hedge accounting treatment.

Gains and losses on derivatives that are designated and qualify as cash flow hedging instruments are recorded in Accumulated Other Comprehensive Loss, to the extent the hedges are effective, until the underlying transactions are recognized in the Consolidated Statements of Comprehensive Income. Derivatives not designated as hedging instruments are marked-to-market at the end of each period with the results included in Consolidated Statements of Comprehensive Income.

## New Accounting Standards

### Recently Adopted Accounting Standards

Standard	Description	Date of Adoption	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 adopted the standard effective June 3, 2018 using the modified retrospective method. Refer to Note 2 to the financial statements for further information regarding the adoption of the standard.
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 12 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.
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 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 fiscal years ended June 2, 2018 and June 3, 2017 from Selling, general and administrative to Other, net. Refer to Note 8 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 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.	June 2, 2019	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 Company has assembled a project team and has made significant process towards implementation of the lease accounting standard. The Company will adopt the standard in fiscal 2020 using the modified-retrospective transition approach. 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. Also, the Company will elect the package of practical expedients. The Company is in the process of finalizing its accounting policies and internal control processes related to the new standard. Upon adoption, the Company expects to record lease liabilities and right-of-use assets in the range of \$250 million to \$300 million.
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.

## 2. 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 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
<b>Balance Sheet</b>			
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 table 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.

(In millions)	Year Ended June 1, 2019			
	As reported	Performance Obligation Change	Gross vs. Net Change	Legacy GAAP
<b>Statement of Comprehensive Income</b>				
Net sales	\$ 2,567.2	\$ (21.5)	\$ (38.0)	\$ 2,507.7
Cost of sales	1,637.3	(12.8)	(38.0)	1,586.5
Gross margin	929.9	(8.7)		921.2
Total operating expenses	726.4	(0.1)		726.3
Operating earnings	203.5	(8.6)		194.9
Income tax expense	39.6	(1.5)		38.1
Net earnings	160.5	(7.1)		153.4

As of June 1, 2019

(In millions)	As reported	Performance Obligation Change	Gross vs. Net Change	Legacy GAAP
<b>Balance Sheet</b>				
Assets:				
Unbilled accounts receivable	\$ 34.3	\$ (32.6)		\$ 1.7
Inventories, net	184.2	17.6		201.8
Liabilities:				
Accrued compensation and benefits	85.5	(0.4)		85.1
Other accrued liabilities	99.1	(5.6)		93.5
Equity:				
Retained earnings	712.7	(8.9)		703.8

There was no impact on Net Cash Provided by Operating Activities within the Company's 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 June 1, 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 Retail reportable segment, as well as customer purchase orders for the Maharam subsidiary within the North America Contract 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 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)	Year Ended June 1, 2019
Net Sales:	
Single performance obligation	
Product revenue	\$ 2,155.0
Multiple performance obligations	
Product revenue	390.0
Service revenue	12.6
Other	9.6
Total	<u>\$ 2,567.2</u>

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

(In millions)	Year Ended June 1, 2019
<b>North America Contract:</b>	
Systems	\$ 564.4
Seating	501.8
Freestanding and storage	384.9
Textiles	113.8
Other	121.6
<b>Total North America Contract</b>	<b>\$ 1,686.5</b>
<b>International Contract:</b>	
Systems	\$ 103.6
Seating	276.1
Freestanding and storage	53.0
Other	59.5
<b>Total International Contract</b>	<b>\$ 492.2</b>
<b>Retail:</b>	
Seating	\$ 235.6
Freestanding and storage	67.5
Other	85.4
<b>Total Retail</b>	<b>\$ 388.5</b>
<b>Total</b>	<b>\$ 2,567.2</b>

Refer to Note 14 of the 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" in the 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 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 Consolidated Balance Sheets. During the year ended June 1, 2019, the Company recognized Net sales of \$26.9 million related to customer deposits there were included in the balance sheet as of June 2, 2018.

### 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 Consolidated Statements of Comprehensive Income.

On January 1, 2017, the Company completed the sale of a wholly-owned contract furniture dealership in 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 Consolidated Statements of Comprehensive Income. The full balance of the note receivable was paid in the fourth quarter of fiscal 2019.

#### **Maars Holding B.V.**

On August 31, 2018, Herman Miller Holdings Limited, a wholly owned subsidiary of the Company, acquired 48.2% of the outstanding equity of Global Holdings Netherlands B.V., which owns 100% 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 48.2% 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 the valuation analysis was completed in the fourth quarter of fiscal 2019 with no differences noted from the preliminary valuation.

#### **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 and subsequently renamed to HAY A/S ("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.

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 annually thereafter.

### 4. Inventories

(In millions)	June 1, 2019	June 2, 2018
Finished goods and work in process	\$ 139.1	\$ 124.2
Raw materials	45.1	38.2
Total	\$ 184.2	\$ 162.4

Inventories valued using LIFO amounted to \$26.5 million and \$25.5 million as of June 1, 2019 and June 2, 2018, respectively. If all inventories had been valued using the first-in first-out method, inventories would have been \$198.0 million and \$175.3 million at June 1, 2019 and June 2, 2018, respectively.

## 5. Investments in Nonconsolidated Affiliates

The Company has certain investments in entities that are accounted for using the equity method (“nonconsolidated affiliates”). The investments are included in Other assets in the Consolidated Balance Sheets and the equity earnings are included in Equity earnings from nonconsolidated affiliates, net of tax in the Consolidated Statements of Comprehensive Income. Refer to the tables below for the investment balances that are included in the Consolidated Balance Sheets and for the equity earnings that are included in the Consolidated Statements of Comprehensive Income.

(in millions)	June 1, 2019	June 2, 2018
Investments in nonconsolidated affiliates	\$ 89.0	\$ 16.8

(in millions)	June 1, 2019	June 2, 2018	June 3, 2017
Equity earnings from nonconsolidated affiliates	\$ 5.0	\$ 3.0	\$ 1.6

The Company had an ownership interest in seven nonconsolidated affiliates at June 1, 2019. Refer to the Company's ownership percentages shown below:

Ownership Interest	June 1, 2019	June 2, 2018
Kvadrat Maharam Arabia DMCC	50.0%	50.0%
Kvadrat Maharam Pty Limited	50.0%	50.0%
Kvadrat Maharam Turkey JSC	50.0%	50.0%
Danskina B.V.	50.0%	50.0%
Naughtone Holdings Limited*	52.5%	50.0%
Global Holdings Netherlands B.V.	48.2%	—%
HAY A/S	33.0%	—%

\*The minority shareholders of Naughtone Holdings Limited have substantive participation rights, including participating in decisions related to hiring, firing, and compensation of executive management, as well as establishing the annual operating budget. As such, the entity is not consolidated.

### **Kvadrat Maharam**

The Kvadrat Maharam nonconsolidated affiliates are distribution entities that are engaged in selling decorative upholstery, drapery and wall covering products. At June 1, 2019 and June 2, 2018, the Company's investment value in Kvadrat Maharam Pty was \$1.8 million and \$1.9 million more than the Company's proportionate share of the underlying net assets, respectively. This difference was driven by a step-up in fair value of the investment in Kvadrat Maharam Pty, stemming from the Maharam business combination. This amount is considered to be a permanent basis difference.

### **Naughtone**

In the fourth quarter of fiscal 2019 the Company increased its investment in Naughtone from 50% to 52.5% for approximately \$2.0 million. At June 1, 2019, the Company's investment value in Naughtone was \$9.8 million more than the Company's proportionate share of the underlying net assets, of which \$2.0 million was being amortized over the remaining useful lives of the assets, while \$7.8 million was considered a permanent basis difference.

At June 2, 2018, the Company's investment value in Naughtone was \$10.2 million more than the Company's proportionate share of the underlying net assets, of which \$2.4 million was being amortized over the remaining useful lives of the assets, while \$7.8 million was considered a permanent basis difference.

### **Maars**

On August 31, 2018, Herman Miller Holdings Limited, a wholly owned subsidiary of the Company, acquired 48.2% of the outstanding equity of Global Holdings Netherlands B.V., which owns 100% 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 48.2% 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 the valuation analysis was completed in the fourth quarter of fiscal 2019 with no differences noted from the preliminary valuation.

As of the August 31, 2018 acquisition date, the Company's investment value in Maars was \$3.1 million more than the Company's proportionate share of the underlying net assets. This amount represented the difference between the price that the Company paid to acquire 48.2% of the outstanding equity and the carrying value of the net assets of Maars. Of this difference, \$2.7 million was being amortized over the remaining useful lives of the assets while, \$0.4 million was considered a permanent difference.

At June 1, 2019, the Company's investment value in Maars was \$2.7 million more than the Company's proportionate share of the underlying net assets, of which \$2.3 million was being amortized over the remaining useful lives of the assets, while \$0.4 million was considered a permanent basis difference.

### **HAY**

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 and subsequently renamed to HAY A/S ("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.

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.

As of the June 7, 2018 acquisition date, the Company's investment value in HAY was \$62.9 million more than the Company's proportionate share of the underlying net assets. This amount represented the difference between the price that the company paid to acquire 33% of the outstanding equity and the carrying value of the net assets of HAY. Of this difference, \$26.6 million was being amortized over the remaining useful lives of the assets while, \$36.3 million was considered a permanent difference.

At June 1, 2019, the Company's investment value in HAY was \$56.8 million more than the Company's proportionate share of the underlying net assets, of which \$22.6 million was being amortized over the remaining useful lives of the assets, while \$34.2 million was considered a permanent basis difference. The change in the permanent basis difference from the acquisition date is due to changes in foreign currency exchange rates.

### **Transactions with Nonconsolidated Affiliates**

Sales to and purchases from nonconsolidated affiliates were as follows for the periods presented below:

(in millions)	June 1, 2019	June 2, 2018	June 3, 2017
Sales to nonconsolidated affiliates	\$ 3.9	\$ 4.3	\$ 4.0
Purchases from nonconsolidated affiliates	\$ 23.0	\$ 6.8	\$ 4.2

Balances due to or due from nonconsolidated affiliates were as follows for the periods presented below:

(in millions)	June 1, 2019	June 2, 2018
Receivables from nonconsolidated affiliates	\$ 0.7	\$ 0.9
Payables to nonconsolidated affiliates	\$ 1.2	\$ 1.0

## **6. Long-Term Debt**

Long-term debt consisted of the following obligations:

(In millions)	June 1, 2019	June 2, 2018
Debt securities, 6.0%, 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	3.1	3.8
Total debt	\$ 285.0	\$ 285.8
Less: Current debt	(3.1)	(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 \$200 million. The facility expires 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.

On January 3, 2018, the Company borrowed \$225.0 million on its existing revolving line of credit. Of these proceeds, \$150.0 million was used to repay its Series B senior notes upon maturity, while the rest of the proceeds was designated for general business purposes.

As of June 1, 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 outstanding letters of credit. As of June 2, 2018, available borrowings against this facility were \$166.8 million due to \$8.2 million related to outstanding letters of credit.

The unsecured senior revolving credit facility restrict, without prior consent, our borrowings, capital leases and the sale of certain assets. In addition, we have agreed to maintain certain financial performance ratios, which include a maximum leverage ratio covenant, which is measured by the ratio of debt to trailing four quarter adjusted EBITDA (as defined in the credit agreement) and is required to be less than 3.5:1, except that we may elect, under certain conditions, to increase the maximum Leverage Ratio to 4:1 for four consecutive fiscal quarter end dates. The covenants also require a minimum interest coverage ratio, which is measured by the ratio of trailing four quarter EBITDA to trailing four quarter interest expense (as defined in the credit agreement) and is required to be greater than 4:1. Adjusted EBITDA is generally defined in the credit agreement as EBITDA adjusted by certain items which include non-cash share-based compensation, non-recurring restructuring costs and extraordinary items. At June 1, 2019 and June 2, 2018, the Company was in compliance with all of these restrictions and performance ratios.

### **Supplier Financing Program**

The Company has an agreement with a third party financial institution to provide a platform 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 Consolidated Balance Sheets as the amounts have been accounted for by the Company as a current debt obligation. Accordingly, \$3.1 million and \$3.8 million have been recorded within the caption "Other accrued liabilities" for the periods ended June 1, 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 was \$6.7 million and the related financing liability was \$6.9 million at June 1, 2019. The carrying value of the building and the related financing liability were both \$7.0 million at June 2, 2018.

Annual maturities of debt for the five fiscal years subsequent to June 1, 2019 are as shown in the table below.

(In millions)

2020	\$	3.1
2021	\$	50.0
2022	\$	225.0
2023	\$	—
2024	\$	—
Thereafter	\$	6.9

## 7. Operating Leases

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The Company leases real property and equipment under agreements that expire on various dates. Certain leases contain renewal provisions and generally require the Company to pay utilities, insurance, taxes, and other operating expenses.

Future minimum rental payments required under operating leases that have non-cancelable lease terms as of June 1, 2019, are as follows:

(In millions)

2020	\$	51.7
2021	\$	46.8
2022	\$	42.9
2023	\$	39.0
2024	\$	33.5
Thereafter	\$	101.9

Total rental expense charged to operations was \$55.9 million, \$49.3 million and \$45.3 million, in fiscal 2019, 2018 and 2017, respectively. Substantially all such rental expense represented the minimum rental payments under operating leases.

## 8. Employee Benefit Plans

The Company maintains retirement benefit plans for substantially all of its employees.

### Pension Plans and Post-Retirement Medical Insurance

The Company offers certain employees retirement benefits under domestic defined benefit plans. The Company provides healthcare benefits to employees who retired from service on or before a qualifying date in 1998. As of the qualifying date, the Company discontinued offering post-retirement medical to future retirees. Benefits to qualifying retirees under this plan are based on the employee's years of service and age at the date of retirement. In addition to the domestic pension and retiree healthcare plan, one of the Company's wholly owned foreign subsidiaries has a defined-benefit pension plan based upon an average final pay benefit calculation. The measurement date for the Company's remaining domestic and international pension plans, as well as its post-retirement medical plan, is the last day of the fiscal year.

### Benefit Obligations and Funded Status

The following table presents, for the fiscal years noted, a summary of the changes in the projected benefit obligation, plan assets and funded status of the Company's domestic and international pension plans and post-retirement plan:

(In millions)	Pension Benefits				Post-Retirement Benefits	
	2019		2018		2019	2018
	Domestic	International	Domestic	International		
<b>Change in benefit obligation:</b>						
Benefit obligation at beginning of year	\$ 1.0	\$ 105.9	\$ 1.0	\$ 113.8	\$ 4.0	\$ 5.0
Interest cost	—	2.7	0.1	2.7	0.1	0.1
Plan Amendments	—	0.9	—	—	—	—
Foreign exchange impact	—	(6.0)	—	4.2	—	—
Actuarial loss (gain)	0.1	9.7	—	(12.2)	(0.3)	(0.5)
Benefits paid	(0.1)	(4.1)	(0.1)	(2.6)	(0.5)	(0.6)
Benefit obligation at end of year	<u>\$ 1.0</u>	<u>\$ 109.1</u>	<u>\$ 1.0</u>	<u>\$ 105.9</u>	<u>\$ 3.3</u>	<u>\$ 4.0</u>
<b>Change in plan assets:</b>						
Fair value of plan assets at beginning of year	\$ —	\$ 94.6	\$ —	\$ 80.5	\$ —	\$ —
Actual return on plan assets	—	2.5	—	1.2	—	—
Foreign exchange impact	—	(5.1)	—	2.8	—	—
Employer contributions	0.1	0.3	0.1	12.7	0.5	0.6
Benefits paid	(0.1)	(4.1)	(0.1)	(2.6)	(0.5)	(0.6)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>\$ 88.2</u>	<u>\$ —</u>	<u>\$ 94.6</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Funded status:</b>						
Under funded status at end of year	<u>\$ (1.0)</u>	<u>\$ (20.9)</u>	<u>\$ (1.0)</u>	<u>\$ (11.3)</u>	<u>\$ (3.3)</u>	<u>\$ (4.0)</u>
<b>Components of the amounts recognized in the Consolidated Balance Sheets:</b>						
Current liabilities	\$ (0.1)	\$ —	\$ (0.1)	\$ —	\$ (0.6)	\$ (0.6)
Non-current liabilities	\$ (0.9)	\$ (20.9)	\$ (0.9)	\$ (11.3)	\$ (2.7)	\$ (3.4)
<b>Components of the amounts recognized in Accumulated other comprehensive loss before the effect of income taxes:</b>						
Prior service cost	\$ —	\$ 0.8	\$ —	\$ —	\$ —	\$ —
Unrecognized net actuarial loss (gain)	\$ 0.3	\$ 47.3	\$ 0.3	\$ 40.8	\$ (1.3)	\$ (1.1)
Accumulated other comprehensive loss	<u>\$ 0.3</u>	<u>\$ 48.1</u>	<u>\$ 0.3</u>	<u>\$ 40.8</u>	<u>\$ (1.3)</u>	<u>\$ (1.1)</u>

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 \$1.4 million and \$0.3 million of net periodic benefit cost in the Consolidated Statements of Comprehensive Income for fiscal years 2018 and 2017, respectively, from Selling, general and administrative to Other, net.

The accumulated benefit obligation for the Company's domestic pension benefit plans totaled \$1.0 million as of the end of both fiscal 2019 and fiscal 2018. For its international plans, the accumulated benefit obligation totaled \$105.4 million and \$102.2 million as of fiscal 2019 and fiscal 2018, respectively. The following table summarizes the totals for pension plans with accumulated benefit obligations in excess of plan assets:

**Pension Plans with Accumulated Benefit Obligation in Excess of Plan Assets**

(In millions)	2019	2018
Projected benefit obligation	\$ 110.1	\$ 106.9
Accumulated benefit obligation	\$ 106.4	\$ 103.1
Fair value of plan assets	\$ 88.2	\$ 94.6

The following table is a summary of the annual cost of the Company's pension and post-retirement plans:

**Components of Net Periodic Benefit Costs and Other Changes Recognized in Other Comprehensive Income (Loss):**

(In millions)	Pension Benefits			Post-Retirement Benefits		
	2019	2018	2017	2019	2018	2017
<b>Domestic:</b>						
Interest cost	\$ —	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.2
Net periodic benefit cost	\$ —	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.2
<b>International:</b>						
Interest cost	\$ 2.7	\$ 2.7	\$ 2.7			
Expected return on plan assets	(4.5)	(5.6)	(4.7)			
Net amortization	2.8	4.2	2.2			
Net periodic benefit cost	\$ 1.0	\$ 1.3	\$ 0.2			

**Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income (Loss):**

(In millions)	Pension Benefits		Post-Retirement Benefits	
	2019	2018	2019	2018
<b>Domestic:</b>				
Net actuarial gain	\$ 0.1	\$ —	\$ (0.3)	\$ (0.5)
Total recognized in other comprehensive loss	\$ 0.1	\$ —	\$ (0.3)	\$ (0.5)
<b>International:</b>				
Net actuarial (gain) loss	\$ 11.7	\$ (7.7)		
Net amortization	(2.7)	(4.2)		
Total recognized in other comprehensive loss	\$ 9.0	\$ (11.9)		

The net actuarial loss, included in accumulated other comprehensive loss (pretax), expected to be recognized in net periodic benefit cost during fiscal 2020 is \$3.3 million.

**Actuarial Assumptions**

The weighted-average actuarial assumptions used to determine the benefit obligation amounts and the net periodic benefit cost for the Company's pension and post-retirement plans are as follows:

The weighted-average used in the determination of net periodic benefit cost:

(Percentages)	2019		2018		2017	
	Domestic	International	Domestic	International	Domestic	International
Discount rate	3.99	2.87	3.53	2.49	3.51	3.43
Compensation increase rate	n/a	3.10	n/a	3.25	n/a	2.95
Expected return on plan assets	n/a	4.80	n/a	6.10	n/a	6.10

The weighted-average used in the determination of the projected benefit obligations:

Discount rate	3.47	2.39	3.99	2.87	3.53	2.49
Compensation increase rate	n/a	3.20	n/a	3.10	n/a	3.25

The Company uses a full yield curve approach to estimate the interest component of net periodic benefit cost for pension and other postretirement benefits. This method applies the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows.

In calculating post-retirement benefit obligations for fiscal 2020, a 6.7 percent annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2019, decreasing gradually to 4.3 percent by 2038 and remaining at that level thereafter. For purposes of calculating post-retirement benefit costs, a 7.1 percent annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2019, decreasing gradually to 4.3 percent by 2038 and remaining at that level thereafter.

Changes in assumed health care cost-trend rates is not expected to have a significant impact on the post-employment liability.

### Plan Assets and Investment Strategies

The Company's international employee benefit plan assets consist mainly of listed fixed income obligations and common/collective trusts. The Company's primary objective for invested pension plan assets is to provide for sufficient long-term growth and liquidity to satisfy all of its benefit obligations over time. Accordingly, the Company has developed an investment strategy that it believes maximizes the probability of meeting this overall objective. This strategy includes the development of a target investment allocation by asset category in order to provide guidelines for making investment decisions. This target allocation emphasizes the long-term characteristics of individual asset classes as well as the diversification among multiple asset classes. In developing its strategy, the Company considered the need to balance the varying risks associated with each asset class with the long-term nature of its benefit obligations. The Company's strategy moving forward will be to increase the level of fixed income investments as the funding status improves, thereby more closely matching the return on assets with the liabilities of the plans.

The Company utilizes independent investment managers to assist with investment decisions within the overall guidelines of the investment strategy. The target asset allocation at the end of fiscal 2019 and asset categories for the Company's primary international pension plan for fiscal 2019 and 2018 are as follows:

<b>Asset Category</b>	Targeted Asset Allocation Percentage		Percentage of Plan Assets at Year End	
	2019	2018	2019	2018
Fixed income	35	35	33	36
Common collective trusts	65	65	67	64
<b>Total</b>			<b>100</b>	<b>100</b>

(In millions)

<b>Asset Category</b>	International Plan as of June 1, 2019		
	Level 1	Level 2	Total
Cash and cash equivalents	\$ —	\$ —	\$ —
Foreign government obligations	—	29.3	29.3
Common collective trusts-balanced	—	58.9	58.9
<b>Total</b>	<b>\$ —</b>	<b>\$ 88.2</b>	<b>\$ 88.2</b>

(In millions)

<b>Asset Category</b>	International Plan as of June 2, 2018		
	Level 1	Level 2	Total
Cash and cash equivalents	\$ 0.2	\$ —	\$ 0.2
Foreign government obligations	—	33.4	33.4
Common collective trusts-balanced	—	61.0	61.0
<b>Total</b>	<b>\$ 0.2</b>	<b>\$ 94.4</b>	<b>\$ 94.6</b>

### Cash Flows

The Company reviews pension funding requirements to determine the contribution to be made in the next year. Actual contributions will be dependent upon investment returns, changes in pension obligations and other economic and regulatory factors. During fiscal 2019, the Company made total cash contributions of \$0.9 million to its benefit plans. In fiscal 2018, the Company made total cash contributions of \$13.4 million to its benefit plans.

The following represents a summary of the benefits expected to be paid by the plans in future fiscal years. These expected benefits were estimated based on the same actuarial valuation assumptions used to determine benefit obligations at June 1, 2019.

(In millions)	Pension Benefits Domestic	Pension Benefits International	Post-Retirement Benefits
2020	\$ 0.1	\$ 1.8	\$ 0.5
2021	\$ 0.1	\$ 1.9	\$ 0.4
2022	\$ 0.1	\$ 2.3	\$ 0.4
2023	\$ 0.1	\$ 2.1	\$ 0.4
2024	\$ 0.1	\$ 2.3	\$ 0.3
2025-2029	\$ 0.3	\$ 16.7	\$ 1.1

### **Profit Sharing, 401(k) Plan, and Core Contribution**

Substantially all of the Company's domestic employees are eligible to participate in a defined contribution retirement plan, primarily the Herman Miller, Inc. profit sharing and 401(k) plan (the "plan"). Employees under the plan are eligible to begin participating on their date of hire. Until June 4, 2017, the plan provided for discretionary contributions for eligible participants, payable in the Company's common stock, of not more than 6 percent of employees' wages based on the Company's financial performance. Effective June 4, 2017, the Company discontinued the Employer Profit Sharing Contribution and instead, began allocating those funds to other components of pay and retirement. Under the plan the Company matches 100 percent of employee contributions to their 401(k) accounts up to 3 percent of their pay. Effective September 3, 2017, the Company increased the Employer Matching Contribution from 3 percent to 4 percent for all eligible employees. A core contribution of 4 percent is also included for most participants of the plan. There was an additional 1 percent contribution added to the quarterly Core Contribution for the quarter prior to the increased Employer Matching Contribution effective September 3, 2017. The Company's other defined contribution retirement plans may provide for matching contributions, non-elective contributions and discretionary contributions as declared by management.

The cost of the Herman Miller, Inc. profit sharing contribution during fiscal 2017 was \$6.0 million. No profit sharing contribution was made in fiscal 2019 or fiscal 2018. The expense recorded for the Company's 401(k) matching contributions and core contributions was approximately \$25.4 million, \$24.9 million and \$22.8 million in fiscal years 2019, 2018 and 2017, respectively.

## **9. Common Stock and Per Share Information**

The following table reconciles the numerators and denominators used in the calculations of basic and diluted EPS for each of the last three fiscal years:

(In millions, except shares)	2019	2018	2017
<u>Numerator:</u>			
Numerator for both basic and diluted EPS, Net earnings attributable to Herman Miller, Inc.	\$ 160.5	\$ 128.1	\$ 123.9
<u>Denominator:</u>			
Denominator for basic EPS, weighted-average common shares outstanding	59,011,945	59,681,268	59,871,805
Potentially dilutive shares resulting from stock plans	369,846	630,037	682,784
Denominator for diluted EPS	<u>59,381,791</u>	<u>60,311,305</u>	<u>60,554,589</u>

Equity awards of 218,037 shares, 348,089 shares and 764,154 shares of common stock were excluded from the denominator for the computation of diluted earnings per share for the fiscal years ended June 1, 2019, June 2, 2018 and June 3, 2017, respectively, because they were anti-dilutive. The Company has certain share-based payment awards that meet the definition of participating securities.

### **Common Stock**

The Company has two share repurchase plans authorized by the Board of Directors on September 25, 2007 and January 16, 2019, which provide share repurchase authorization of \$550.0 million with no specified expiration date. The approximate dollar value of shares available for purchase under the plans at June 1, 2019 was \$264.2 million. During fiscal year 2019, 2018, and 2017, shares repurchased and retired totaled 1,326,023, 1,356,156, and 765,556 shares respectively.

## 10. Stock-Based Compensation

The Company utilizes equity-based compensation incentives as a component of its employee and non-employee director and officer compensation philosophy. Currently, these incentives consist principally of stock options, restricted stock, restricted stock units and performance share units. The Company also offers a stock purchase plan for its domestic and certain international employees. The Company issues shares in connection with its share-based compensation plans from authorized, but unissued, shares. At June 1, 2019 there were 5,991,307 shares authorized under the various stock-based compensation plans.

### Valuation and Expense Information

The Company measures the cost of employee services received in exchange for an award of equity instruments based on their grant-date fair market value. This cost is recognized over the requisite service period.

Certain of the Company's equity-based compensation awards contain provisions that allow for continued vesting into retirement. Stock-based awards are considered fully vested for expense attribution purposes when the employee's retention of the award is no longer contingent on providing subsequent service.

The Company classifies pre-tax stock-based compensation expense primarily within Operating expenses in the Consolidated Statements of Comprehensive Income. Pre-tax compensation expense and the related income tax benefit for all types of stock-based programs was as follows for the periods indicated:

(In millions)	June 1, 2019	June 2, 2018	June 3, 2017
Employee stock purchase program	\$ 0.3	\$ 0.3	\$ 0.3
Stock option plans	(0.4)	2.6	2.0
Restricted stock units	4.6	3.9	3.6
Performance share units	2.8	0.9	2.8
Total	<u>\$ 7.3</u>	<u>\$ 7.7</u>	<u>\$ 8.7</u>
Tax benefit	\$ 1.6	\$ 2.3	\$ 3.1

As of June 1, 2019, total pre-tax stock-based compensation cost not yet recognized related to non-vested awards was approximately \$7.1 million. The weighted-average period over which this amount is expected to be recognized is 0.96 years.

### Employee Stock Purchase Program

Under the terms of the Company's Employee Stock Purchase Plan, 4 million shares of authorized common stock were reserved for purchase by plan participants at 85 percent of the market price. Shares of common stock purchased under the employee stock purchase plan were 62,957, 67,335, and 68,547 for the fiscal years ended 2019, 2018 and 2017 respectively.

### Stock Option Plans

The Company grants options to purchase the Company's stock to certain key employees and non-employee directors at a price not less than the market price of the Company's common stock on the date of grant. Under the current award program, all options become exercisable between one and three years from date of grant and expire ten years from date of grant. Most options are subject to graded vesting with the related compensation expense recognized on a straight-line basis over the requisite service period.



In fiscal 2019 there were two separate stock option valuation dates. Therefore the table below has been presented with the assumptions relevant to each valuation date. The Company estimated the fair value of employee stock options on the date of grant using the Black-Scholes model. In determining these values, the following weighted-average assumptions were used for the options granted during the fiscal years indicated:

	2019	2018	2017
Risk-free interest rates <sup>(1)</sup>	2.65-2.70%	1.79%	1.01%
Expected term of options <sup>(2)</sup>	4.4 years	4.6 years	4.0 years
Expected volatility <sup>(3)</sup>	27%	26%	26%
Dividend yield <sup>(4)</sup>	2.18-2.33%	2.23%	2.13%
<b>Weighted-average grant-date fair value of stock options:</b>			
Granted with exercise prices equal to the fair market value of the stock on the date of grant	\$ 8.05	\$ 6.39	\$ 5.50

(1) Represents term-matched, zero-coupon risk-free rate from the Treasury Constant Maturity yield curve, continuously compounded.

(2) Represents historical settlement data, using midpoint scenario with 1-year grant date filter assumption for outstanding options.

(3) The blended volatility approach was used. 90% term-matched historical volatility from daily stock prices and 10% percent weighted average implied volatility from the 90 days preceding the grant date.

(4) Represents the quarterly dividend divided by the three-month average stock price as of the grant date, annualized and continuously compounded.

The following is a summary of the transactions under the Company's stock option plans:

	Shares Under Option	Weighted-Average Exercise Prices	Aggregate Intrinsic Value (in millions)	Weighted-Average Remaining Contractual Term (Years)
Outstanding at June 2, 2018	1,063,249	\$ 30.33	\$ 2.9	7.45
Granted at market	156,008	\$ 38.23		
Exercised	(347,248)	\$ 28.84		
Forfeited or expired	(81,950)	\$ 33.94		
Outstanding at June 1, 2019	790,059	\$ 32.17	\$ 3.0	5.81
Ending vested + expected to vest	790,059	\$ 32.17	\$ 3.0	5.81
Exercisable at end of period	282,985	\$ 28.51	\$ 2.0	4.42

The weighted-average remaining recognition period of the outstanding stock options at June 1, 2019 was 1.12 years. The total pre-tax intrinsic value of options exercised during fiscal 2019, 2018 and 2017 was \$3.3 million, \$5.0 million and \$1.3 million, respectively. The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on the Company's closing stock price as of the end of the period presented, which would have been received by the option holders had all option holders exercised in-the-money options as of that date. Total cash received during fiscal 2019 from the exercise of stock options was approximately \$10 million.

### Restricted Stock Units

The Company grants restricted stock units to certain key employees. This program provides that the actual number of restricted stock units awarded is based on the value of a portion of the participant's long-term incentive compensation divided by the fair value of the Company's stock on the date of grant. The awards generally cliff-vest after a three-year service period, with prorated vesting under certain circumstances and full or partial accelerated vesting upon retirement. Each restricted stock unit represents one equivalent share of the Company's common stock to be awarded, free of restrictions, after the vesting period. Compensation expense related to these awards is recognized over the requisite service period, which includes any applicable performance period. Dividend equivalent awards are credited quarterly. The units do not entitle participants to the rights of stockholders of common stock, such as voting rights, until shares are issued after vesting.

The following is a summary of restricted stock unit transactions for the fiscal years indicated:

	Share Units	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value (in millions)	Weighted-Average Remaining Contractual Term (Years)
Outstanding at June 2, 2018	481,027	\$ 32.20	\$ 15.8	1.28
Granted	91,304	\$ 37.81		
Forfeited	(31,922)	\$ 35.94		
Released	(229,128)	\$ 31.40		
Outstanding at June 1, 2019	311,281	\$ 33.93	\$ 11.0	1.10
Ending vested + expected to vest	311,281	\$ 33.93	\$ 11.0	1.10



The weighted-average remaining recognition period of the outstanding restricted stock units at June 1, 2019, was 0.99 years. The fair value of the share units that vested during the twelve months ended June 1, 2019, was \$8.4 million. The weighted average grant-date fair value of restricted stock units granted during 2019, 2018, and 2017 was \$37.81, \$35.28 and \$31.83 respectively.

### Performance Share Units

The Company grants performance share units to certain key employees. The number of units initially awarded was based on the value of a portion of the participant's long-term incentive compensation, divided by the fair value of the Company's common stock on the date of grant. Each unit represents one equivalent share of the Company's common stock. The number of common shares ultimately issued in connection with these performance share units is determined based on the Company's financial performance over the related three-year service period or the Company's financial performance based on certain total shareholder return results as compared to a selected group of peer companies. Compensation expense is determined based on the grant-date fair value and the number of common shares projected to be issued and is recognized over the requisite service period.

The following is a summary of performance share unit transactions for the fiscal years indicated:

	Share Units	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value (in millions)	Weighted-Average Remaining Contractual Term (Years)
Outstanding at June 2, 2018	374,560	\$ 30.76	\$ 12.3	1.01
Granted	207,568	\$ 36.37		
Forfeited	(19,093)	\$ 35.90		
Released	(239,679)	\$ 31.55		
Outstanding at June 1, 2019	<u>323,356</u>	\$ 33.48	\$ 11.5	1.13
Ending vested + expected to vest	323,356	\$ 33.48	\$ 11.5	1.13

The weighted-average remaining recognition period of the outstanding performance share units at June 1, 2019, was 1.06 years. The fair value for shares that vested during the twelve months ended June 1, 2019, was \$9.3 million. The weighted average grant-date fair value of performance share units granted during 2019, 2018, and 2017 was \$36.37, \$31.28, and \$29.40 respectively.

### Herman Miller Consumer Holdings Stock (HMCH) Option Plan

Certain employees were granted options to purchase stock of HMCH at a price not less than the market price of HMCH common stock on the date of grant. For the grants of options under the award program, options are potentially exercisable between one year and five years from date of grant and expire at the end of the window period that follows the fifth anniversary of the grant date. Vesting is based on the performance of HMCH over a period of five years. Certain of these options have been classified as liability awards as the holders have the right to put the underlying shares to the Company immediately upon exercise. Given this, the awards are measured at fair value at the end of each reporting period and compensation expense is adjusted accordingly to reflect the fair value over the requisite service period. The Company estimates the issuance date fair value of HMCH stock options on the date of grant using the Black-Scholes model. In fiscal 2019 the options did not meet their performance targets resulting in cancellation of awards and reversal of the related expense and liability. The expense reversal for these awards was \$1.1 million during fiscal 2019 and the related liability for these awards was zero as of the end of fiscal 2019.

The following weighted-average assumptions were used to value the liability associated with HMCH stock options as of June 2, 2018:

	2018
Risk-free interest rates <sup>(1)</sup>	2.29%
Expected term of options <sup>(2)</sup>	1.1 years
Expected volatility <sup>(3)</sup>	35%
Dividend yield	not applicable
Strike price	30.64
Per share value <sup>(4)</sup>	8.24

(1) Represents the U.S. Treasury yield over the same period as the expected option term.

(2) Represents the period of time that options granted are expected to be outstanding.

(3) Amount is determined based on analysis of historical price volatility of the common stock of peer companies over a period equal to the expected term of the options.

(4) Based on the Black-Scholes formula.

	Shares Under Option	Weighted-Average Exercise Prices	Aggregate Intrinsic Value (in millions)	Weighted-Average Remaining Contractual Term (Years)
Outstanding at June 2, 2018	544,126	\$ 24.04	\$ 3.6	1.20
Exercised	(4,861)	\$ 7.82		
Forfeited	(468,558)	\$ 24.39		
Outstanding at June 1, 2019	70,707	\$ 22.80	\$ 0.5	0.20
Exercisable at end of period	70,707	\$ 22.80	\$ 0.5	0.20

The outstanding balance at June 1, 2019 in the preceding table represents fully vested options. The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on the HMCH market price, less the strike price, as of the end of the period presented, which would have been received by the option holders had all option holders exercised in-the-money options as of that date.

### **Deferred Compensation Plan**

The Herman Miller, Inc. Executive Equalization Retirement Plan is a supplemental deferred compensation plan and was made available for salary deferrals and Company contributions beginning in January 2008. The plan is available to a select group of management or highly compensated employees who are selected for participation by the Executive Compensation Committee of the Board of Directors. The plan allows participants to defer up to 50 percent of their base salary and up to 100 percent of their incentive cash bonus. Company contributions to the plan "mirror" the amounts the Company would have contributed to the various qualified retirement plans had the employee's compensation not been above the IRS statutory ceiling (\$280,000 in 2019). The Company does not guarantee a rate of return for these funds. Instead, participants make investment elections for their deferrals and Company contributions. Investment options are the same as those available under the Herman Miller Profit Sharing and 401(k) Plan, except for Company stock, which is not an investment option under this plan.

The Nonemployee Officer and Director Deferred Compensation Plan allows the Board of Directors of the Company to defer a portion of their annual director fee. Investment options are the same as those available under the Herman Miller Profit Sharing and 401(k) Plan, including Company stock.

In accordance with the terms of the Executive Equalization Plan and Nonemployee Officer and Director Deferred Compensation Plan, the salary and bonus deferrals, Company contributions and director fee deferrals have been placed in a Rabbi trust. The assets in the Rabbi trust remain subject to the claims of creditors of the Company and are not the property of the participant. Investments in securities other than the Company's common stock are included within the Other assets line item, while investments in the Company's stock are included in the line item Key executive deferred compensation in the Company's Consolidated Balance Sheets. A liability of the same amount is recorded on the Consolidated Balance Sheets within the Other liabilities line item. Investment assets are classified as trading, and accordingly, realized and unrealized gains and losses are recognized within the Company's Consolidated Statements of Comprehensive Income in the Interest and other investment income line item. The associated changes to the liability are recorded as compensation expense within the Selling, general and administrative line item within the Company's Consolidated Statements of Comprehensive Income. The net effect of any change to the asset and corresponding liability is offset and has no impact on Net earnings in the Consolidated Statements of Comprehensive Income.

### **Director Fees**

Company directors may elect to receive their director fees in one or more of the following forms: cash, deferred compensation in the form of shares or other selected investment funds, unrestricted Company stock at the market value at the date of election or stock options that vest in one year and expire in ten years. The exercise price of the stock options granted may not be less than the market price of the Company's common stock on the date of grant. Under the plan, the Board members received the following shares or options in the fiscal years indicated:

	2019	2018	2017
Shares of common stock	10,185	8,828	9,982
Shares through the deferred compensation program	7,619	2,207	2,582

## 11. 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 percent to 21 percent 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, primarily related to the one-time U.S. tax liability on certain undistributed foreign earnings and the remeasurement of current and deferred tax liabilities. Subsequently, as the U.S. Treasury Department issued additional guidance, the Company recorded adjustments to the provisional tax benefit. During the year ended June 1, 2019, the Company completed its accounting for all the effects of the Act and recorded adjustments to the provisional amounts primarily for the one-time U.S. tax liability on certain undistributed foreign earnings and also an adjustment related to foreign tax credits to increase the income tax benefit from the Act by \$1.0 million.

The U.S. Treasury Department and the Internal Revenue Service are 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.

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.

The components of earnings before income taxes are as follows:

(In millions)	2019	2018	2017
Domestic	\$ 136.2	\$ 121.6	\$ 131.4
Foreign	58.9	46.5	46.2
Total	<u>\$ 195.1</u>	<u>\$ 168.1</u>	<u>\$ 177.6</u>

The provision (benefit) for income taxes consists of the following:

(In millions)	2019	2018	2017
Current: Domestic - Federal	\$ 19.0	\$ 30.2	\$ 28.7
Domestic - State	6.4	4.3	2.3
Foreign	12.9	10.7	11.1
	<u>38.3</u>	<u>45.2</u>	<u>42.1</u>
Deferred: Domestic - Federal	1.0	(4.1)	9.2
Domestic - State	(0.2)	0.1	2.8
Foreign	0.5	1.2	1.0
	<u>1.3</u>	<u>(2.8)</u>	<u>13.0</u>
Total income tax provision	<u>\$ 39.6</u>	<u>\$ 42.4</u>	<u>\$ 55.1</u>

The following table represents a reconciliation of income taxes at the United States statutory rate of 21% for 2019, 29.1% for 2018, and 35% for 2017 with the effective tax rate as follows:

(In millions)	2019	2018	2017
Income taxes computed at the United States Statutory rate	\$ 41.0	\$ 49.0	\$ 62.2
Increase (decrease) in taxes resulting from:			
Remeasurement of U.S. deferred tax assets and liabilities due to the Tax Act	(0.2)	(8.9)	—
U.S. tax liability on undistributed foreign earnings due to the Tax Act	(2.6)	9.0	—
Foreign-derived intangible income	(3.1)	—	—
Global intangible low-taxed income	6.9	—	—
Foreign statutory rate differences	1.9	(4.0)	(5.7)
Manufacturing deduction under the American Jobs Creation Act of 2004	—	(2.7)	(3.4)
State taxes	4.9	3.3	3.8
United Kingdom patent box deduction for research and development	(1.9)	(1.8)	(2.6)
Research and development credit	(3.4)	(2.4)	(1.4)
Foreign tax credit	(5.7)	(2.4)	(0.6)
Other, net	1.8	3.3	2.8
Income tax expense	\$ 39.6	\$ 42.4	\$ 55.1
Effective tax rate	<u>20.3%</u>	<u>25.2%</u>	<u>31.1%</u>

The tax effects and types of temporary differences that give rise to significant components of the deferred tax assets and liabilities at June 1, 2019 and June 2, 2018, are as follows:

(In millions)	2019	2018
<b>Deferred tax assets:</b>		
Compensation-related accruals	\$ 13.1	\$ 15.3
Accrued pension and post-retirement benefit obligations	7.2	6.6
Deferred revenue	6.1	5.6
Inventory related	1.2	1.0
Reserves for uncollectible accounts and notes receivable	0.7	0.6
Other reserves and accruals	8.1	5.2
Warranty	12.3	11.9
State and local tax net operating loss carryforwards and credits	2.5	2.3
Federal net operating loss carryforward	1.4	1.7
Foreign tax net operating loss carryforwards and credits	9.1	10.0
Accrued step rent and tenant reimbursements	4.2	3.8
Other	4.0	3.9
Subtotal	69.9	67.9
Valuation allowance	(10.4)	(10.3)
Total	<u>\$ 59.5</u>	<u>\$ 57.6</u>
<b>Deferred tax liabilities:</b>		
Book basis in property in excess of tax basis	\$ (26.6)	\$ (25.5)
Intangible assets	(34.6)	(32.3)
Other	(2.1)	(6.9)
Total	<u>\$ (63.3)</u>	<u>\$ (64.7)</u>

The future tax benefits of net operating loss (NOL) carry-forwards and foreign tax credits are recognized to the extent that realization of these benefits is considered more likely than not. The Company bases this determination on the expectation that related operations will be sufficiently profitable or various tax planning strategies will enable the Company to utilize the NOL carry-forwards and/or foreign tax credits. To the extent that available evidence about the future raises doubt about the realization of these tax benefits, a valuation allowance is established.

At June 1, 2019, the Company had state and local tax NOL carry-forwards of \$25.7 million, the state tax benefit of which is \$1.4 million, which have various expiration periods from 1 to 21 years. The Company also had state credits with a state tax benefit of \$1.1 million, which expire in 1 to 6 years. For financial statement purposes, the NOL carry-forwards and state tax credits have been recognized as deferred tax assets, subject to a valuation allowance of \$1.3 million.

At June 1, 2019, the Company had federal NOL carry-forwards of \$6.6 million, the tax benefit of which is \$1.4 million, which expire in 10 years. For financial statement purposes, the NOL carry-forwards have been recognized as deferred tax assets.

At June 1, 2019, the Company had federal deferred assets of \$2.2 million, the tax benefit of which is \$0.5 million, which is related to investments in various foreign joint ventures. For financial statement purposes, the assets have been recognized as deferred tax assets, subject to a valuation allowance of \$0.5 million.

At June 1, 2019, the Company had foreign net operating loss carry-forwards of \$41.2 million, the tax benefit of which is \$9.1 million, which have expiration periods from 9 years to an unlimited term. For financial statement purposes, the NOL carry-forwards have been recognized as deferred tax assets, subject to a valuation allowance of \$7.6 million.

At June 1, 2019, the Company had foreign deferred assets of \$5.5 million, the tax benefit of which is \$1.0 million, which is related to various deferred taxes in Hong Kong and Brazil as well as buildings in the United Kingdom. For financial statement purposes, the assets have been recognized as deferred tax assets, subject to a valuation allowance of \$1.0 million.

The Company has recorded transition tax on undistributed foreign earnings as required by the Act. No other provision was made for income taxes that may result from future remittances of the undistributed earnings of foreign subsidiaries that are determined to be indefinitely reinvested, which was \$223.8 million on June 1, 2019. Determination of the total amount of unrecognized deferred income tax on undistributed earnings of foreign subsidiaries is not practicable.

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

(In millions)

Balance at June 3, 2017	\$	2.8
Increases related to current year income tax positions		0.3
Increases related to prior year income tax positions		0.4
Decreases related to lapse of applicable statute of limitations		(0.3)
Balance at June 2, 2018	\$	3.2
Increases related to current year income tax positions		0.4
Increases related to prior year income tax positions		0.1
Decreases related to prior year income tax positions		(0.4)
Decreases related to lapse of applicable statute of limitations		(0.3)
Decreases related to settlements		(1.1)
Balance at June 1, 2019	\$	<u>1.9</u>

The Company's effective tax rate would have been affected by the total amount of unrecognized tax benefits had this amount been recognized as a reduction to income tax expense.

The Company recognizes interest and penalties related to unrecognized tax benefits through Income tax expense in its Consolidated Statements of Comprehensive Income. Interest and penalties and the related liability, which are excluded from the table above, were as follows for the periods indicated:

(In millions)

	June 1, 2019	June 2, 2018	June 3, 2017
Interest and penalty expense (income)	\$ (0.3)	\$ 0.1	\$ 0.2
Liability for interest and penalties	\$ 0.7	\$ 1.0	

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 12 months as a result of new positions that may be taken on income tax returns, settlement of tax positions and the closing of statutes of limitation. It is not expected that any of the changes will be material to the Company's Consolidated Statements of Comprehensive Income.

During the year, the Company has partially closed the audit of fiscal 2018 with the Internal Revenue Service under the Compliance Assurance Process (CAP). For the majority of the remaining tax jurisdictions, the Company is no longer subject to state and local, or non-U.S. income tax examinations by tax authorities for fiscal years before 2016.

## 12. Fair Value of Financial Instruments

The Company's financial instruments consist of cash equivalents, marketable securities, interest rate swaps, 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 fair value of fixed rate debt was based on third-party quotes (Level 2). 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)	June 1, 2019		June 2, 2018	
Carrying value	\$	285.0	\$	285.8
Fair value	\$	287.8	\$	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 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.

*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 current market-based activity. These forward contracts are not designated as hedging instruments.

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

*Deferred compensation plan assets* — 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 16 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 June 1, 2019 and June 2, 2018:

(In millions)	Fair Value Measurements					
	June 1, 2019			June 2, 2018		
	NAV	Quoted Prices With Other Observable Inputs (Level 2)	Management Estimates (Level 3)	NAV	Quoted Prices With Other Observable Inputs (Level 2)	Management Estimates (Level 3)
<b>Financial Assets</b>						
<b>Cash equivalents:</b>						
Money market funds	\$ 69.5	\$ —	\$ —	\$ 121.0	\$ —	\$ —
Mutual funds - equity	—	0.9	—	—	0.9	—
Foreign currency forward contracts	—	—	—	—	0.4	—
Deferred compensation plan	—	12.5	—	—	15.1	—
<b>Total</b>	<b>\$ 69.5</b>	<b>\$ 13.4</b>	<b>\$ —</b>	<b>\$ 121.0</b>	<b>\$ 16.4</b>	<b>\$ —</b>
<b>Financial Liabilities</b>						
Foreign currency forward contracts	\$ —	\$ 1.4	\$ —	\$ —	\$ 0.3	\$ —
Contingent consideration	—	—	0.2	—	—	0.5
<b>Total</b>	<b>\$ —</b>	<b>\$ 1.4</b>	<b>\$ 0.2</b>	<b>\$ —</b>	<b>\$ 0.3</b>	<b>\$ 0.5</b>

The following table sets forth financial assets and liabilities 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 June 1, 2019 and June 2, 2018.

(In millions)	June 1, 2019		June 2, 2018	
	Quoted Prices with Other Observable Inputs (Level 2)	Management Estimate (Level 3)	Quoted Prices with Other Observable Inputs (Level 2)	Management Estimate (Level 3)
<b>Financial Assets</b>				
Mutual funds - fixed income	\$ 7.9	\$ —	\$ 7.7	\$ —
Interest rate swap agreement	1.0	—	15.0	—
<b>Total</b>	<b>\$ 8.9</b>	<b>\$ —</b>	<b>\$ 22.7</b>	<b>\$ —</b>
<b>Financial Liabilities</b>				
Interest rate swap agreement	\$ 2.2	—	—	\$ —
<b>Total</b>	<b>\$ 2.2</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

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

(In millions)	June 1, 2019	June 2, 2018
<b>Contingent Consideration</b>		
Beginning balance	\$ 0.5	\$ 0.5
Net realized (gains) losses	(0.2)	0.1
Settlements	(0.1)	(0.1)
Ending balance	<u>\$ 0.2</u>	<u>\$ 0.5</u>

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. 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 dates indicated:

(In millions)	June 1, 2019			June 2, 2018		
	Cost	Unrealized Gain/(Loss)	Market Value	Cost	Unrealized Gain/(Loss)	Market Value
Mutual funds - fixed income	\$ 7.9	\$ —	\$ 7.9	\$ 7.8	\$ (0.1)	\$ 7.7
Mutual funds - equity	0.8	0.1	0.9	0.7	0.2	0.9
<b>Total</b>	<b>\$ 8.7</b>	<b>\$ 0.1</b>	<b>\$ 8.8</b>	<b>\$ 8.5</b>	<b>\$ 0.1</b>	<b>\$ 8.6</b>

The cost of securities sold is based on the specific identification method; realized gains and losses resulting from such sales are included in the 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 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 \$0.1 million which is 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 offset 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. These foreign currency exposures typically arise from net liability or asset exposures in non-functional currencies on the balance sheets of our foreign subsidiaries. These 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.

The notional amounts of the forward contracts held to purchase and sell U.S. dollars in exchange for other major international currencies were \$38.1 million and \$37.3 million as of June 1, 2019 and June 2, 2018, respectively. The notional amounts of the foreign currency forward contracts held to purchase and sell British pound sterling in exchange for other major international currencies were £19.2 million and £19.9 million as of June 1, 2019 and June 2, 2018, respectively. The Company also has other forward contracts related to other currency pairs at varying notional amounts.

### 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 June 1, 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 percent fixed interest rate plus applicable margin under the agreement as of the forward start date.

In June 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 amount from a LIBOR-based floating interest rate plus applicable margin to a 2.387 percent fixed interest rate plus applicable margin under the agreement as of the forward start date.

The fair value of the Company's two outstanding interest rate swap agreements was a net liability of \$1.2 million (comprised of a \$1.0 million asset position and a \$2.2 million liability position) and an asset of \$15.0 million as of June 1, 2019 and June 2, 2018, respectively. The liability and asset fair value were recorded within Other Liabilities and Other Assets within the 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 \$12.8 million and a net unrealized gain of \$7.5 million for the fiscal years ended June 1, 2019 and June 2, 2018, respectively.

For fiscal 2019, 2018 and 2017, there were no gains or losses recognized against earnings for hedge ineffectiveness.



## Effects of Derivatives on the Financial Statements

The effects of derivatives on the consolidated financial statements were as follows for the fiscal years ended 2019 and 2018 (amounts presented exclude any income tax effects):

(In millions)	Balance Sheet Location	June 1, 2019	June 2, 2018
<b>Designated derivatives:</b>			
Interest rate swap	Long-term assets: Other assets	\$ 1.0	\$ 15.0
Interest rate swap	Long-term liabilities: Other liabilities	\$ 2.2	\$ —
<b>Non-designated derivatives:</b>			
Foreign currency forward contracts	Current assets: Other	\$ —	\$ 0.4
Foreign currency forward contracts	Current liabilities: Other accrued liabilities	\$ 1.4	\$ 0.3

(In millions)	Statement of Comprehensive Income Location	Fiscal Year		
		June 1, 2019	June 2, 2018	June 3, 2017
Gain (loss) recognized on foreign currency forward contracts	Other expenses (income): Other, net	\$ 0.3	\$ 0.4	\$ (1.2)

The gain/(loss) recorded, net of income taxes, in Other comprehensive loss for the effective portion of designated derivatives was as follows for the periods presented below:

(In millions)	Fiscal Year		
	June 1, 2019	June 2, 2018	June 3, 2017
Interest rate swap	\$ (12.8)	\$ 7.5	\$ 2.1

Losses reclassified from Accumulated other comprehensive loss into earnings were \$0.5 million and \$0.3 million for the fiscal years ended 2019 and 2018, respectively. There were no reclassifications required in fiscal 2017. The net of tax amount expected to be reclassified out of Accumulated other comprehensive loss into earnings during the next twelve months is a \$0.3 million gain.

### **Investments in Equity Securities Without a Readily Determinable Fair Value**

In the fourth quarter of fiscal 2019, the Company recorded a gain from a \$2.1 million fair value adjustment in an investment in a technology partner, which increased the total carrying value of the investment to \$3.6 million as of June 1, 2019. The gain was the result of an observable price change for a similar investment in the same entity.

### 13. Warranties, Guarantees 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. 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 various costs associated with the Company's warranty program. General warranty reserves are based on historical claims experience and other currently available information and are periodically adjusted for business levels and other factors. Specific reserves are established once an issue is identified with the amounts for such reserves based on the estimated cost of correction. Changes in the warranty reserve for the stated periods were as follows:

(In millions)	2019	2018	2017
Accrual balance, beginning	\$ 51.5	\$ 47.7	\$ 43.9
Accrual for warranty matters	20.7	22.1	22.8
Settlements	(19.1)	(18.3)	(19.0)
Accrual balance, ending	\$ 53.1	\$ 51.5	\$ 47.7

#### Other Guarantees

The Company is periodically required to provide performance bonds in order to conduct business with certain customers. These arrangements are common and generally have terms ranging between one and three years. The bonds are required to provide assurances to customers that the products and services they have purchased will be installed and/or provided properly and without damage to their facilities. The performance bonds are provided by various bonding agencies and the Company is ultimately liable for claims that may occur against them. As of June 1, 2019, the Company had a maximum financial exposure related to performance bonds of approximately \$5.7 million. 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 significantly affect the Company's Consolidated Financial Statements. Accordingly, no liability has been recorded as of June 1, 2019 and June 2, 2018.

The Company periodically enters into agreements in the normal course of business that may include indemnification clauses regarding service losses. Service losses represent all direct or consequential loss, liability, damages, costs and expenses incurred by the customer or others resulting from services rendered by the Company, the dealer, or certain sub-contractors, due to a proven negligent act. The Company has no history of claims, nor is it aware of circumstances that would require it to perform under these arrangements and believes that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not significantly affect the Company's Consolidated Financial Statements. Accordingly, no liability has been recorded as of June 1, 2019 and June 2, 2018.

The Company has entered into standby letter of credit arrangements for the purpose of protecting various insurance companies and lessors against default on insurance premium and lease payments. As of June 1, 2019, the Company had a \$10 million financial exposure from these standby letters 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 significantly affect the Company's Consolidated Financial Statements. Accordingly, no liability has been recorded as of June 1, 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.

As of the end of fiscal 2019, outstanding commitments for future purchase obligations approximated \$73.5 million.

## 14. Operating Segments

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In fiscal 2018, the Company's reportable segments consisted of North American Furniture Solutions, ELA ("EMEA, Latin America, and Asia Pacific") Furniture Solutions, Specialty and Consumer. Effective in the fourth quarter of fiscal 2019, the Company has revised its reportable segments to combine the Specialty reportable segment with the North American Furniture Solutions reportable segment. The newly combined segment is called "North America Contract". There were no changes to the Company's ELA Furniture Solutions ("ELA") and Consumer segments, but each has been renamed. Effective in the fourth quarter of fiscal 2019, ELA is now named "International Contract" and Consumer is named "Retail". The Specialty segment (Maharam, Geiger, Nemschoff and the Herman Miller Collection) has been combined with the North America Contract segment under a common segment manager as of the fourth quarter fiscal 2019. The change in operating segments reflect the basis of how the Company internally reports and evaluates financial information used to make operating decisions. Prior year results disclosed in the table below have been revised to reflect these changes.

The North America Contract segment includes the operations associated with the design, manufacture, and sale of furniture and textile 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 America Contract segment. In addition to the Herman Miller brand, this 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 International Contract segment includes EMEA, Latin America, and Asia-Pacific. International Contract includes the operations associated with the design, manufacture, and sale of furniture products, primarily for work-related settings, in these aforementioned geographic regions. The Retail segment includes operations associated with the sale of modern design furnishings and accessories to third party retail distributors, as well as direct to consumer sales through eCommerce, direct mailing catalogs and Design Within Reach and HAY studios.

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.

The performance of the operating segments is evaluated by the Company's management using various financial measures. The following is a summary of certain key financial measures for the respective fiscal years indicated:

(In millions)	2019	2018	2017
<b>Net Sales:</b>			
North America Contract	\$ 1,686.5	\$ 1,589.8	\$ 1,574.6
International Contract	492.2	434.5	385.5
Retail	388.5	356.9	318.1
Corporate	—	—	—
Total	<u>\$ 2,567.2</u>	<u>\$ 2,381.2</u>	<u>\$ 2,278.2</u>
<b>Depreciation and Amortization:</b>			
North America Contract	\$ 46.8	\$ 43.9	\$ 37.7
International Contract	10.5	10.2	9.4
Retail	14.1	12.1	10.2
Corporate	0.7	0.7	1.6
Total	<u>\$ 72.1</u>	<u>\$ 66.9</u>	<u>\$ 58.9</u>
<b>Operating Earnings (Losses):</b>			
North America Contract	\$ 189.7	\$ 175.2	\$ 184.1
International Contract	57.8	36.9	36.2
Retail	5.3	13.9	4.8
Corporate	(49.3)	(47.1)	(34.0)
Total	<u>\$ 203.5</u>	<u>\$ 178.9</u>	<u>\$ 191.1</u>
<b>Capital Expenditures:</b>			
North America Contract	\$ 52.7	\$ 46.0	\$ 56.8
International Contract	16.6	11.4	8.5
Retail	16.5	13.2	22.0
Corporate	—	—	—
Total	<u>\$ 85.8</u>	<u>\$ 70.6</u>	<u>\$ 87.3</u>
<b>Total Assets:</b>			
North America Contract	\$ 733.6	\$ 677.4	\$ 691.5
International Contract	356.8	283.4	230.3
Retail	310.0	291.2	276.4
Corporate	168.9	227.5	108.1
Total	<u>\$ 1,569.3</u>	<u>\$ 1,479.5</u>	<u>\$ 1,306.3</u>
<b>Goodwill:</b>			
North America Contract	\$ 185.3	\$ 185.3	\$ 185.6
International Contract	39.7	40.0	40.1
Retail	78.8	78.8	78.8
Corporate	—	—	—
Total	<u>\$ 303.8</u>	<u>\$ 304.1</u>	<u>\$ 304.5</u>

The accounting policies of the reportable operating segments are the same as those of the Company. Additionally, the Company employs a methodology for allocating corporate costs and assets with the underlying objective of this methodology being to allocate corporate costs according to the relative usage of the underlying resources and to allocate corporate assets according to the relative expected benefit. The majority of the allocations for corporate expenses are based on relative net sales. However, certain corporate costs, generally considered the result of isolated business decisions, are not subject to allocation and are evaluated separately from the rest of the regular ongoing business operations.

The Company's product offerings consist primarily of office furniture systems, seating, freestanding furniture, storage and casegoods. These product offerings are marketed, distributed and managed primarily as a group of similar products on an overall portfolio basis. The following is a summary of net sales estimated by product category for the respective fiscal years indicated:

(In millions)	2019	2018	2017
<b>Net Sales:</b>			
Systems	\$ 668.0	\$ 601.5	\$ 639.0
Seating	1,013.5	965.9	894.8
Freestanding and storage	505.4	465.1	428.8
Textiles	113.8	94.3	96.9
Other <sup>(1)</sup>	266.5	254.4	218.7
<b>Total</b>	<b>\$ 2,567.2</b>	<b>\$ 2,381.2</b>	<b>\$ 2,278.2</b>

(1) "Other" primarily consists of uncategorized product sales and service sales.

Sales by geographic area are based on the location of the customer. Long-lived assets consist of long-term assets of the Company, excluding financial instruments, deferred tax assets and long-term intangibles. The following is a summary of geographic information for the respective fiscal years indicated. Individual foreign country information is not provided as none of the individual foreign countries in which the Company operates are considered material for separate disclosure based on quantitative and qualitative considerations.

(In millions)	2019	2018	2017
<b>Net Sales:</b>			
United States	\$ 1,865.8	\$ 1,737.9	\$ 1,690.1
International	701.4	643.3	588.1
<b>Total</b>	<b>\$ 2,567.2</b>	<b>\$ 2,381.2</b>	<b>\$ 2,278.2</b>
<b>Long-lived assets:</b>			
United States	\$ 422.1	\$ 349.3	\$ 328.6
International	52.2	50.5	45.3
<b>Total</b>	<b>\$ 474.3</b>	<b>\$ 399.8</b>	<b>\$ 373.9</b>

The Company estimates that no single dealer accounted for more than 5 percent of the Company's net sales in the fiscal year ended June 1, 2019. The Company estimates that its largest single end-user customer accounted for \$129.6 million, \$109.8 million and \$102.3 million of the Company's net sales in fiscal 2019, 2018 and 2017, respectively. This represents approximately 5 percent, 5 percent and 5 percent of the Company's net sales in fiscal 2019, 2018 and 2017, respectively.

Approximately 5 percent of the Company's employees are covered by collective bargaining agreements, most of whom are employees of its Nemschoff and Herman Miller Holdings Limited subsidiaries.

## 15. Accumulated Other Comprehensive Loss

The following table provides an analysis of the changes in accumulated other comprehensive loss for the years ended June 1, 2019, June 2, 2018 and June 3, 2017:

(In millions)	Year Ended		
	June 1, 2019	June 2, 2018	June 3, 2017
Cumulative translation adjustments at beginning of period	\$ (34.1)	\$ (36.8)	\$ (29.6)
Other comprehensive (loss) income before reclassifications	(14.2)	2.7	(7.2)
Balance at end of period	(48.3)	(34.1)	(36.8)
Pension and other post-retirement benefit plans at beginning of period	(37.2)	(47.6)	(34.9)
Other comprehensive (loss) income before reclassifications (net of tax of \$2.0, (\$2.9), and \$3.7)	(10.0)	5.3	(14.5)
Reclassification from accumulated other comprehensive income - Other, net	2.6	4.2	2.2
Tax (expense) benefit	(0.4)	0.9	(0.4)
Net reclassifications	2.2	5.1	1.8
Net current period other comprehensive (loss) income	(7.8)	10.4	(12.7)
Balance at end of period	(45.0)	(37.2)	(47.6)
Interest rate swap agreement at beginning of period	9.9	2.1	—
Cumulative effect of accounting change	1.5	—	—
Other comprehensive (loss) income before reclassifications (net of tax of \$5.3, (\$4.0), and (\$1.2))	(12.8)	7.5	2.1
Reclassification from accumulated other comprehensive income - Other, net	0.5	0.3	—
Net reclassifications	0.5	0.3	—
Net current period other comprehensive (loss) income	(12.3)	7.8	2.1
Balance at end of period	(0.9)	9.9	2.1
Unrealized Gains on Available-for-sale Securities at beginning of period	0.1	0.1	—
Cumulative effect of accounting change	(0.1)	—	—
Other comprehensive income before reclassifications	—	—	0.1
Balance at end of period	—	0.1	0.1
Total Accumulated other comprehensive loss	\$ (94.2)	\$ (61.3)	\$ (82.2)

## 16. Redeemable Noncontrolling Interests

Redeemable noncontrolling interests are reported on the Consolidated Balance Sheets in mezzanine equity within the caption 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 subject to a "floor" amount that is equal to the fair value of the redeemable noncontrolling interests at the time they were originally recorded. 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 the years ended June 1, 2019 and June 2, 2018 are as follows:

(In millions)	Year Ended	
	June 1, 2019	June 2, 2018
Balance at beginning of period	\$ 30.5	\$ 24.6
Purchase of redeemable noncontrolling interests	(10.1)	(1.0)
Net income attributable to redeemable noncontrolling interests	—	0.6
Exercised options	0.2	0.1
Redemption value adjustment	—	6.2
Other adjustments	—	—
Balance at end of period	\$ 20.6	\$ 30.5

The Company is the controlling owner of a subsidiary in which there are redeemable noncontrolling equity interests outstanding. Certain minority shareholders in this subsidiary have the right, at certain times, to require the subsidiary to acquire a portion of their ownership interest in those entities at fair value. During fiscal 2019, these minority shareholders exercised certain of these options to require the Company's subsidiary to purchase \$10.1 million of the outstanding redeemable noncontrolling interests. By comparison, options exercised by the minority shareholders in fiscal 2018 resulted in purchases totaling \$1.0 million. The subsidiary also has an option to acquire a portion of the redeemable noncontrolling interests at fair market value. On July 23, 2019, the subsidiary exercised an option that allowed it to acquire approximately \$12.6 million of the remaining \$20.6 million of the redeemable noncontrolling equity interests.

## 17. Restructuring and Impairment Activities

### North America Contract segment

#### 2019 Restructuring Expense

During the fourth quarter of fiscal 2019, the Company announced restructuring activities associated with our profit improvement initiatives, including costs associated with an early retirement program. The Company also engaged in the consolidation of facilities related to its Nemschoff business. These actions resulted in pre-tax restructuring expenses totaling \$7.7 million relating to employee severance related actions of \$6.7 million and lease termination and disposal activities of \$1.0 million in the fourth quarter. Future estimated restructuring expenses relate to the early retirement program and are estimated at a cost of \$1.8 million. The project is expected to generate cost savings of approximately \$10 million and is expected to conclude in the second quarter of fiscal 2020.

The table below shows provides an analysis of the North America Contract Segment restructuring cost reserve for the year ended June 1, 2019:

(In millions)	June 1, 2019		
	Severance and Employee-Related	Exit or Disposal Activities	Total
Beginning Balance	\$ —	\$ —	\$ —
Restructuring Costs	6.7	1.0	\$ 7.7
Ending Balance	\$ 6.7	\$ 1.0	\$ 7.7

## 2018 Restructuring Expense

During the first quarter of fiscal 2018, the Company announced restructuring actions involving targeted workforce reductions primarily within the North America Contract 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 completed, and final payments made in fiscal 2018.

During the second quarter of fiscal 2018, the Company announced further restructuring actions involving targeted workforce reductions primarily within the North America Contract segment. These actions related to the Company's previously announced cost savings initiatives and resulted in the recognition of restructuring expenses of \$0.4 million in the second quarter of fiscal 2018. The restructuring actions were completed, and final payments made in fiscal 2018.

### International Contract segment

During the fourth quarter of fiscal 2018, the Company announced a facilities consolidation plan related to its International Contract 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.

During fiscal 2018 the Company recognized restructuring expenses of \$3.9 million of which \$2.4 million related to workforce reductions and \$1.5 million related to the exit and disposal activities as a result of consolidating the United Kingdom office and China manufacturing facilities.

In the fourth quarter of fiscal 2019, the Company recognized restructuring expenses of \$0.8 million related to the consolidation of the facilities mentioned above. In fiscal 2019, the Company recognized restructuring and impairment expenses of \$2.5 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 \$1.4 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 "Other" in the Consolidated Balance Sheets for the period ended June 1, 2019. The carrying amount of the assets held for sale was approximately \$4.2 million as of June 1, 2019.

The Company expects the International Contract 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 and related special charges.

The following table provides an analysis of the changes in the International Contract segment restructuring costs reserve for the fiscal year ended June 2, 2018 and the fiscal year ended June 1, 2019 :

(In millions)	Severance and Employee-Related	Impairment of Property and Equipment	Exit or Disposal Activities	Total
<b>June 3, 2017</b>	\$ —	\$ —	\$ —	\$ —
Restructuring Costs	2.4	—	1.5	\$ 3.9
Amounts Paid	(2.4)	—	(1.5)	\$ (3.9)
<b>June 2, 2018</b>	\$ —	\$ —	\$ —	\$ —
Restructuring Costs	0.3	0.8	1.4	\$ 2.5
Amounts Paid	(0.2)	—	(1.3)	\$ (1.5)
Charges Against Assets	—	(0.8)	—	\$ (0.8)
<b>June 1, 2019</b>	\$ 0.1	\$ —	\$ 0.1	\$ 0.2

### 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 \$1.6 million and \$2.5 million as of June 1, 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. Quarterly Financial Data (Unaudited)

Set forth below is a summary of the quarterly operating results on a consolidated basis for the years ended June 1, 2019, June 2, 2018, and June 3, 2017.

(In millions, except per share data)		First Quarter <sup>(1)</sup>	Second Quarter <sup>(1)</sup>	Third Quarter <sup>(1)</sup>	Fourth Quarter <sup>(1)</sup>
2019	Net sales	\$ 624.6	\$ 652.6	\$ 619.0	\$ 671.0
	Gross margin	225.1	235.6	221.0	248.2
	Net earnings attributable to Herman Miller, Inc.	35.8	39.3	39.2	46.2
	Earnings per share-basic	0.60	0.66	0.67	0.78
	Earnings per share-diluted	0.60	0.66	0.66	0.78
2018	Net Sales	\$ 580.3	\$ 604.6	\$ 578.4	\$ 618.0
	Gross margin	216.9	222.1	205.8	228.3
	Net earnings attributable to Herman Miller, Inc.	33.1	33.5	29.8	31.8
	Earnings per share-basic	0.55	0.56	0.50	0.53
	Earnings per share-diluted	0.55	0.55	0.49	0.53
2017	Net sales	\$ 598.6	\$ 577.5	\$ 524.9	\$ 577.2
	Gross margin	230.0	218.0	195.5	220.9
	Net earnings attributable to Herman Miller, Inc.	36.3	31.7	22.5	33.4
	Earnings per share-basic	0.61	0.53	0.38	0.56
	Earnings per share-diluted	0.60	0.53	0.37	0.55

(1) For some line items, the sum of the quarters does not equal the annual balance reflected in the Consolidated Statements of Comprehensive Income due to rounding associated with the calculations on an individual quarter basis.

## Management's Report on Internal Control over Financial Reporting

To the Board of Directors and Stockholders of Herman Miller, Inc.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f). The internal control over financial reporting at Herman Miller, Inc., is designed to provide reasonable assurance to our stakeholders that the financial statements of the Company fairly represent its financial condition and results of operations.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect all misstatements. Further, because of changes in conditions, effectiveness of internal control over financial reporting may vary over time.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of June 1, 2019, based on the original framework in *Internal Control — Integrated Framework (2013 Framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management believes the Company's internal control over financial reporting was effective as of June 1, 2019.

Ernst & Young LLP has issued an attestation report on the effectiveness of our internal control over financial reporting, which is included herein.

/s/ Andrea R. Owen  
Andrea R. Owen  
Chief Executive Officer

/s/ Jeffrey M. Stutz  
Jeffrey M. Stutz  
Chief Financial Officer

## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Herman Miller, Inc.

### Opinion on Internal Control over Financial Reporting

We have audited Herman Miller, Inc. and subsidiaries' internal control over financial reporting as of June 1, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Herman Miller, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of June 1, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Herman Miller, Inc. and subsidiaries as of June 1, 2019 and June 2, 2018, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended June 1, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a) of the Company and our report dated July 30, 2019 expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Grand Rapids, Michigan  
July 30, 2019

## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Herman Miller, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Herman Miller, Inc. and subsidiaries (the Company) as of June 1, 2019 and June 2, 2018, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended June 1, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 1, 2019 and June 2, 2018, and the results of its operations and its cash flows for each of the three years in the period ended June 1, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 1, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated July 30, 2019 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002

Grand Rapids, Michigan

July 30, 2019

**Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosures**

None

## Item 9A Controls and Procedures

- (a) Disclosure Controls and Procedures. Under the supervision and with the participation of management, the Company's Chief Executive Officer and Chief Financial Officer have 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 June 1, 2019 and have concluded that as of that date, the Company's disclosure controls and procedures were effective.
- (b) Management's Annual Report on Internal Control Over Financial Reporting and Attestation Report of the Independent Registered Public Accounting Firm. Refer to Item 8 for "Management's Report on Internal Control Over Financial Reporting." The effectiveness of the Company's internal control over financial reporting has been audited by Ernst and Young LLP, an independent registered accounting firm, as stated in its report included in Item 8.
- (c) Changes in Internal Control Over Financial Reporting. There were no changes in the Company's internal control over financial reporting during the fourth quarter ended June 1, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B Other Information**

None

## **PART III**

### **Item 10 Directors, Executive Officers and Corporate Governance**

#### **Directors, Executive Officers, Promoters and Control Persons**

Information relating to directors and director nominees of the Company is contained under the caption “Director and Executive Officer Information” in the Company’s definitive Proxy Statement, relating to the Company’s 2019 Annual Meeting of Stockholders, and the information within that section is incorporated by reference. Information relating to Executive Officers of the Company is included in Part I hereof entitled “Executive Officers of the Registrant.”

#### **Compliance with Section 16(a) of the Exchange Act**

Information relating to compliance with Section 16(a) of the Exchange Act is contained under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s definitive Proxy Statement, relating to the Company’s 2019 Annual Meeting of Stockholders, and the information within that section is incorporated by reference.

#### **Code of Ethics**

The Company has adopted a Code of Conduct that serves as the code of ethics for the executive officers and senior financial officers and as the code of business conduct for all Company directors and employees. This code is made available free of charge through the “Investors” section of the Company’s internet website at [www.hermanmiller.com](http://www.hermanmiller.com). Any amendments to, or waivers from, a provision of this code also will be posted to the Company’s internet website.

#### **Corporate Governance**

Information relating to the identification of the audit committee, audit committee financial experts, and director nomination procedures of the Company is contained under the captions “Board Committees” and “Corporate Governance and Board Matters — Director Nominations” in the Company’s definitive Proxy Statement, relating to the Company’s 2019 Annual Meeting of Stockholders, and the information within these sections is incorporated by reference.



## Item 11 Executive Compensation

Information relating to executive compensation is contained under the captions “Compensation Discussion and Analysis,” “Summary Compensation Table,” “Grants of Plan-Based Awards,” “Outstanding Equity Awards at Fiscal Year-End,” “Option Exercises and Stock Vested,” “Pension Benefits,” “Nonqualified Deferred Compensation,” “Potential Payments Upon Termination, Death, Disability, Retirement or Change in Control,” “Director Compensation,” “Director Compensation Table,” and “Compensation Committee Interlocks and Insider Participation” in the Company’s definitive Proxy Statement, relating to the Company’s 2019 Annual Meeting of Stockholders, and the information within these sections is incorporated by reference. The information under the caption “Compensation Committee Report” is incorporated by reference, however, such information is not deemed filed with the Commission.

## **Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The sections entitled “Voting Securities and Principal Stockholders,” “Director and Executive Officer Information,” and “Equity Compensation Plan Information” in the Company's definitive Proxy Statement, relating to the Company's 2019 Annual Meeting of Stockholders, and the information within these sections is incorporated by reference.

### **Item 13 Certain Relationships and Related Transactions, and Director Independence**

Information concerning certain relationships and related transactions contained under the captions “Related Party Transactions,” and “Corporate Governance and Board Matters — Determination of Independence of Board Members” in the Company’s definitive Proxy Statement, relating to the Company’s 2019 Annual Meeting of Stockholders and the information within these sections is incorporated by reference.

## Item 14 Principal Accountant Fees and Services

Information relating to the ratification of the selection of the Company's independent public accountants and concerning the payments to our principal accountants and the services provided by our principal accounting firm set forth under the captions "Ratification of the Audit Committee's selection of Independent Registered Accounting Firm" and "Disclosure of Fees Paid to Independent Auditors" in the Company's definitive Proxy Statement, relating to the Company's 2019 Annual Meeting of Stockholders, and the information within that section is incorporated by reference.

## PART IV

### Item 15 Exhibits and Financial Statement Schedule

(a) The following documents are filed as a part of this report:

1. Financial Statements

The following Consolidated Financial Statements of the Company are included in this Annual Report on Form 10-K on the pages noted:

	<u>Page Number in this Form 10-K</u>
Consolidated Statements of Comprehensive Income	<a href="#">39</a>
Consolidated Balance Sheets	<a href="#">40</a>
Consolidated Statements of Stockholders' Equity	<a href="#">41</a>
Consolidated Statements of Cash Flows	<a href="#">42</a>
Notes to the Consolidated Financial Statements	<a href="#">43</a>
Management's Report on Internal Control over Financial Reporting	<a href="#">84</a>
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	<a href="#">85</a>
Report of Independent Registered Public Accounting Firm on Financial Statements	<a href="#">86</a>

2. Financial Statement Schedule

The following financial statement schedule is included in this Annual Report on Form 10-K on the pages noted:

	<u>Page Number in this Form 10-K</u>
Schedule II- Valuation and Qualifying Accounts and Reserves for the Years Ended June 1, 2019, June 2, 2018 and and June 3, 2017	<a href="#">101</a>

All other schedules required by Form 10-K Annual Report have been omitted because they were not applicable, included in the Notes to the Consolidated Financial Statements, or otherwise not required under instructions contained in Regulation S-X.

3. Exhibits

Reference is made to the Exhibit Index which is included on pages 97-99.

**Item 16 Form 10-K Summary**

None

## EXHIBIT INDEX

- (3) Articles of Incorporation and Bylaws
- (a) [Restated Articles of Incorporation, dated October 8, 2018, is incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K Report dated October 8, 2018 \(Commission File No. 001-15141\).](#)
  - (b) [Amended and Restated Bylaws, dated April 9, 2019, is incorporated by reference to Exhibit 3 of the Registrant's Form 8-K Report dated April 9, 2019 \(Commission File No. 001-15141\).](#)
- (4) Instruments Defining the Rights of Security Holders
- (a) Specimen copy of Herman Miller, Inc., common stock is incorporated by reference to Exhibit 4(a) of Registrant's 1981 Form 10-K Annual Report (Commission File No. 001-15141).
  - (b) Other instruments which define the rights of holders of long-term debt individually represent debt of less than 10% of total assets. In accordance with item 601(b)(4)(iii)(A) of regulation S-K, the Registrant agrees to furnish to the Commission copies of such agreements upon request.
  - (c) [Dividend Reinvestment Plan for Shareholders of Herman Miller, Inc., dated January 6, 1997, is incorporated by reference to Exhibit 4\(d\) of the Registrant's 1997 Form 10-K Annual Report \(Commission File No. 000-05813\).](#)
  - (d) [Third Amended and Restated Credit agreement dated as of July 21, 2014 among Herman Miller, Inc. and various lenders is incorporated by reference to Exhibit 10.1 of the Registrant's Report on Form 8-K dated July 22, 2014 \(Commission File No. 001-15141\).](#)
- (10) Material Contracts
- (a) [Herman Miller, Inc. 2011 Long-Term Incentive Plan, as amended by Sixth Amendment \(2019\).](#)<sup>(1)</sup>
  - (b) [Herman Miller, Inc. Nonemployee Officer and Director Deferred Compensation Plan is incorporated by reference to Exhibit 10\(b\) of the Registrant's Form 10-K Report dated July 26, 2016 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (c) [Form of Change in Control Agreement of the Registrant is incorporated by reference to Exhibit 10\(c\) of Registrant's Form 10-K Report dated August 1, 2017 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (d) [Herman Miller, Inc. Executive Equalization Retirement Plan is incorporated by reference to Exhibit 10 \(d\) of the Registrant's Form 10-K Report dated July 28, 2015 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (e) [Form of Herman Miller, Inc., Long-Term Incentive Plan Stock Option Agreement is incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q Report dated January 9, 2019 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (f) [Form of Herman Miller, Inc., Long-Term Incentive Restricted Stock Unit Award is incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q Report dated January 9, 2019 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (g) [Form of Herman Miller, Inc. 2011 Long-Term Incentive HMVA Plan Performance Share Unit Award is incorporated by reference to Exhibit 10.3 of the Registrant's Form 10-Q Report dated January 9, 2019 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (h) [Form of Herman Miller, Inc. 2011 Long-Term Incentive Plan TSR Performance Share Unit Award Agreement is incorporated by reference to Exhibit 10.4 of the Registrant's Form 10-Q Report dated January 9, 2019 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>

- (i) [Form of Herman Miller, Inc. 2011 Long-Term Incentive Plan Conditional Stock Option Award is incorporated by reference to Exhibit 10\(p\) of the Registrant's 10-K Report dated July 28, 2015 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (j) [Trust Under the Herman Miller, Inc. Nonemployee Officer and Director Compensation Plan is incorporated by reference to Exhibit 10\(q\) of the Registrant's Form 10-K Report dated July 26, 2016 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (k) [Retirement Agreement dated February 5, 2018 between Herman Miller, Inc. and Brian C. Walker, Chief Executive Officer, is incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q Report dated April 11, 2018 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (l) [Covenant Agreement dated February 5, 2018 between Herman Miller, Inc. and Brian C. Walker, Chief Executive Officer, is incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q Report dated April 11, 2018 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (m) [Form of Retention Agreement between Herman Miller, Inc. and Jeffrey M. Stutz, Gregory J. Bylsma, Andrew J. Lock, and B. Ben Watson is incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K Report dated February 5, 2018 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (n) [The Share Purchase agreement dated June 7, 2018 between Herman Miller Holdings Limited, Nine United A/S and Holdingselskabet af 1/7 2007 ApS is incorporated by reference to Exhibit 10\(v\) of Registrant's Form 10-K Report dated July 31, 2018 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (o) [Employment Agreement between Herman Miller, Inc. and Andrea R. Owen, Chief Executive Officer, dated August 3, 2018, is incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q Report dated October 10, 2018 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (p) [Stock Option Agreement between Herman Miller, Inc. and Andrea Owen is incorporated by reference to Exhibit \[10.5\] of the Registrant's Form 10-Q Report dated January 9, 2019 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (q) [Restricted Stock Unit Award Agreement between Herman Miller, Inc. and Andrea Owen is incorporated by reference to Exhibit 10.6 of the Registrant's Form 10-Q Report dated January 9, 2019 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (r) [HMVA Performance Share Award Agreement between Herman Miller, Inc. and Andrea Owen is incorporated by reference to Exhibit 10.7 of the Registrant's Form 10-Q Report dated January 9, 2019 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (s) [TSR Performance Share Unit Award Agreement between Herman Miller, Inc. and Andrea Owen is incorporated by reference to Exhibit 10.8 of the Registrant's Form 10-Q Report dated January 9, 2019 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
  - (t) [Herman Miller, Inc. 2019 Executive Incentive Cash Bonus Plan dated July 15, 2019 is incorporated by reference to Exhibit 10 of the Registrant's Form 8-K filed July 19, 2019 \(Commission File No. 001-15141\).](#)<sup>(1)</sup>
- (21) [Subsidiaries](#)
  - (23)(a) [Consent of Independent Registered Public Accounting Firm](#)
  - (24) [Power of Attorney \(included on the signature page to this Registration Statement\)](#)
  - (31)(a) [Certificate of the Chief Executive Officer of Herman Miller, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
  - (31)(b) [Certificate of the Chief Financial Officer of Herman Miller, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
  - (32)(a) [Certificate of the Chief Executive Officer of Herman Miller, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
  - (32)(b) [Certificate of the Chief Financial Officer of Herman Miller, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)



101.INS XBRL Instance 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

<sup>(1)</sup> Denotes compensatory plan or arrangement.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HERMAN MILLER, INC.

By /s/ Jeffrey M. Stutz  
Jeffrey M. Stutz  
Chief Financial Officer (Principal Accounting  
Officer and Duly Authorized Signatory for  
Registrant)

Date: July 30, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on, July 30, 2019 by the following persons on behalf of the Registrant in the capacities indicated.

/s/ Michael A. Volkema  
Michael A. Volkema  
(Chairman of the Board)

/s/ Lisa Kro  
Lisa Kro  
(Director)

/s/ David A. Brandon  
David A. Brandon  
(Director)

/s/ Mary Vermeer Andringa  
Mary Vermeer Andringa  
(Director)

/s/ Douglas D. French  
Douglas D. French  
(Director)

/s/ John R. Hoke III  
John R. Hoke III  
(Director)

/s/ Heidi Manheimer  
Heidi Manheimer  
(Director)

/s/ J. Barry Griswell  
J. Barry Griswell  
(Director)

/s/ Mike Smith  
Mike Smith  
(Director)

/s/ Andrea R. Owen  
Andrea R. Owen  
(President, Chief Executive Officer, and Director)

/s/ Jeffrey M. Stutz  
Jeffrey M. Stutz  
(Chief Financial Officer and Principal Accounting Officer)

**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**

(In millions)


Column A	Column B	Column C	Column D	Column E
Description	Balance at beginning of period	Charges to expenses or net sales	Deductions <sup>(3)</sup>	Balance at end of period
Year ended June 1, 2019:				
Accounts receivable allowances — uncollectible accounts <sup>(1)</sup>	\$ 2.4	\$ 0.6	\$ (0.1)	\$ 2.9
Accounts receivable allowances — credit memo <sup>(2)</sup>	\$ 0.5	\$ —	\$ 0.1	\$ 0.6
Allowance for possible losses on notes receivable	\$ 0.4	\$ (0.1)	\$ —	\$ 0.3
Valuation allowance for deferred tax asset	\$ 10.3	\$ 0.4	\$ (0.3)	\$ 10.4
Year ended June 2, 2018:				
Accounts receivable allowances — uncollectible accounts <sup>(1)</sup>	\$ 2.3	\$ 0.6	\$ (0.5)	\$ 2.4
Accounts receivable allowances — credit memo <sup>(2)</sup>	\$ 0.4	\$ 0.1	\$ —	\$ 0.5
Allowance for possible losses on notes receivable	\$ 0.9	\$ (0.5)	\$ —	\$ 0.4
Valuation allowance for deferred tax asset	\$ 10.0	\$ 0.5	\$ (0.2)	\$ 10.3
Year ended June 3, 2017:				
Accounts receivable allowances — uncollectible accounts <sup>(1)</sup>	\$ 3.4	\$ —	\$ (1.1)	\$ 2.3
Accounts receivable allowances — credit memo <sup>(2)</sup>	\$ 0.4	\$ —	\$ —	\$ 0.4
Allowance for possible losses on notes receivable	\$ 0.9	\$ —	\$ —	\$ 0.9
Valuation allowance for deferred tax asset	\$ 10.6	\$ (0.6)	\$ —	\$ 10.0

(1) Activity under the “Charges to expense or net sales” column are recorded within selling, general and administrative expenses.

(2) Activity under the “Charges to expenses or net sales” column are recorded within net sales.

(3) Represents amounts written off, net of recoveries and other adjustments. Includes effects of foreign translation.

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