MILLER HERMAN INC
Form 10-K
July 31, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K
[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
[__] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For Fiscal Year Ended June 2, 2018 Commission File No. 001-15141
Herman Miller, Inc.
(Exact name of registrant as specified in its charter)

Michigan	38-0837640
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
855 East Main Avenue PO Box 302 Zeeland, Michigan	49464-0302
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (616) 654 3000
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.20 Par Value	Name of exchange on which registered
(Title of Class)	NASDAQ Stock Market LLC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [X] 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 [X]
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 [X] No [__]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 [X] No [__]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]
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 [X] Accelerated filer [__] Non-accelerated filer [__] Smaller reporting company [__]
Emerging growth company [__]
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act [__]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [__] No [X]
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 2, 2017, was $2,040,363,044 (based on $34.55 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 26, 2018: Common stock, $.20 par value - 59,694,316 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 8, 2018, are incorporated into Part III of this report.

Herman Miller, Inc. Form 10-K
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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.

Herman Miller, Inc. was incorporated in Michigan in 1905. One of the company's major plants and its 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, the term “company” includes Herman Miller, Inc., its predecessors, and majority-owned 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 13 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 office furniture systems, seating products, other freestanding furniture elements, textiles, home furnishings and related services. Most of these systems and products are designed to be used together.

The company's ingenuity and design excellence create award-winning products and services, which have made us a leader in 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 modular systems (including Canvas Office Landscape®, Locale®, Public Office Landscape®, Layout Studio®, Action Office®, Ethospace®, Arras®, Overlay™ and Resolve®). The company also offers a broad array of seating (including Embody®, Aeron®, Mirra2™, Setu®, Sayl®, Verus®, Cosm™, Lino™, Verus®, Celle®, Equa®, Taper™ and Ergon® office chairs), 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® an other Nemschoff® products), the Thrive portfolio of ergonomic solutions and the textiles of Maharam Fabric Corporation (Maharam). The Live OS℠ system of cloud-connected furnishings, applications and dashboards provides a data analytics solution 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™, 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 dealer network, via its e-commerce website and through its owned Design Within Reach ("DWR") 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 78 percent of the company's sales in the fiscal year ended June 2, 2018, 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 DWR retail studios or independent dealers and 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 the United States, Canada, 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®, Eames®, PostureFit®, Meridian®, and Canvas Office Landscape®. It is estimated that the average remaining life of the company's patents and trademarks is approximately 6 years.

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 4 percent of the company's net sales in the fiscal year ended June 2, 2018. The company estimates that the largest single end-user customer accounted for $109.8 million, $102.3 million and $95.7 million of the company's net sales in fiscal 2018, 2017, and 2016, respectively. This represents approximately 5 percent, 5 percent and 4 percent of the company's net sales in fiscal 2018, 2017 and 2016, respectively. The company's 10 largest customers in the aggregate accounted for approximately 19 percent, 18 percent, and 18 percent of net sales in fiscal 2018, 2017, and 2016, respectively.

Backlog of Unfilled Orders
As of June 2, 2018, the company's backlog of unfilled orders was $344.5 million. At June 3, 2017, the company's backlog totaled $322.6 million. It is expected that substantially all the orders forming the backlog at June 2, 2018, 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 regional and national independent home furnishings retailers who market high-craft furniture to the interior design community. Similar to our 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. Accordingly, the company believes that its research and design activities are of significant importance. 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 $57.1 million, $58.6 million and $62.4 million on research and development activities in fiscal 2018, 2017 and 2016, 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 us - it is the right thing to do. Our 10-year sustainability strategy - Earthright - begins with three principles: positive transparency, products as living things, and becoming greener together. Our goals are focused around the smart use of resources, eco-inspired design, and becoming 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 2, 2018, 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 2, 2018, the company had 7,681 employees, representing a 3 percent increase as compared with June 3, 2017. 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®, POSH Imagine Desking System®, Ratio®, other seating and storage products and ergonomic accessories Colebrook, Bosson and Saunders. 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, France, Germany, Italy, Japan, Korea, Mexico, Australia, Singapore, China (including Hong Kong), India, Brazil and the Netherlands. The company's products are offered in 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 13 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, 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. 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 actually 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 intend to scale the Consumer business by continuing to transform 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 our contract, catalog and digital channels. Second, we intend to elevate our research-based Living Office framework to the next level by accelerating its evolution, through adding new products and technology solutions, as well as performing research that quantifies the positive impact to organizations from applying these concepts. Third, we intend to leverage the dealer eco-system through a focused selling effort with enhanced digital platforms that will make it easier for our contract customers and dealer partners to find, specify and order products from any brand within the company. Fourth, we intend to implement a range of initiatives aimed at optimizing profitability. These include implementing targeted cost reductions as well as actions aimed at optimizing product pricing and promotions, product and component sourcing, logistics, and distribution. Finally, we intend to continue to deliver innovation. With the alignment of creative direction and new product commercialization under common leadership, we will further reduce our time to market and ensure design and development at Herman Miller responds to our customers most critical needs through a robust pipeline of new products and solutions.

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 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.
Earlier this year, the U.S. recently announced tariffs of 25 percent on steel and 10 percent on aluminum imported from several countries where we conduct business. These tariffs were met with countering tariffs from trade partners of the U.S. as well as increased, broader tariffs to be levied by the U.S. on targeted countries, including China. 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 have significantly impacted the cost of domestic U.S. steel in recent months, a key commodity that we consume in producing our products, which will negatively impact our future gross margin and our operating performance if U.S. costs do not stabilize. Additionally, there is a risk that the U.S. tariffs on imports and the countering tariffs on U.S. produced exports will trigger a broader global trade conflict. This has 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, white-collar 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), the debt crisis in certain countries in the European Union, and the economic slow down in oil producing regions such as the Middle East could negatively affect the company's ability to conduct business in those geographies. The current political and economic uncertainty in the United Kingdom surrounding European Union membership and ongoing debt pressures in certain European countries could cause 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. Financial difficulties experienced by the company's suppliers and customers, including distributors, could result in product delays and inventory issues; risks to accounts receivable could result in delays in collection and greater bad debt expense.

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. In addition, increased catalog mailings by our competitors may adversely affect response rates to our own catalog mailings. 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 various countries including Canada, Mexico, Brazil, France, Germany, Italy, Netherlands, Japan, Australia, Singapore, China, Hong Kong and India. In certain other regions of the world, our products are offered primarily through independent dealerships.

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 DWR 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' confidential 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 stores 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 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 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 throughout fiscal 2018 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 affected 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, and declines in consumer spending on furnishings could reduce demand for our products.
The operations of our Consumer 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 53 percent of the sales within our Consumer segment are transacted within our DWR 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.

Our business could be adversely impacted if we do not successfully manage the transition associated with the retirement of our Chief Executive Officer and the appointment of a new Chief Executive Officer.

On February 5, 2018, we announced that Brian C. Walker plans to retire as President and Chief Executive Officer of the Company by August 31, 2018. Our Board of Directors has initiated a search for his successor and expects that search to be completed relatively soon. Such leadership transitions can be difficult to manage and could present challenges associated with our relationships with our dealers, suppliers and employees.

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 2, 2018 were as follows:

Owned Locations	Square Footage	Use
Zeeland, Michigan	750,800	Manufacturing, Warehouse, Office
Spring Lake, Michigan	582,700	Manufacturing, Warehouse, Office
Holland, Michigan	357,400	Warehouse
Holland, Michigan	293,100	Manufacturing, Office
Holland, Michigan	238,200	Office, Design
Dongguan, China*	431,600	Manufacturing, Office
Sheboygan, Wisconsin	207,700	Manufacturing, Warehouse, Office
Melksham, United Kingdom	170,000	Manufacturing, Warehouse, Office
Hildebran, North Carolina	93,000	Manufacturing, Office

Leased Locations	Square Footage	Use
Hebron, Kentucky	423,700	Warehouse
Dongguan, China*	422,600	Manufacturing, Office
Atlanta, Georgia	180,200	Manufacturing, Warehouse, Office
Bangalore, India	104,800	Manufacturing, Warehouse
Ningbo, China*	185,100	Manufacturing, Warehouse, Office
Yaphank, New York	92,000	Warehouse, Office
New York City, New York	59,000	Office, Retail
Hong Kong, China	54,400	Warehouse
Brooklyn, New York	39,400	Warehouse, Retail
Stamford, Connecticut	35,300	Office, Retail

As of June 2, 2018, the company leased 32 DWR retail studios, including the Herman Miller Flagship store in New York that totaled approximately 360,000 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 Dongguan and leased Ningbo facilities into a new leased facility in Dongguan. The company expects the facilities consolidation to be completed by the first 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 2, 2018 is as follows:

Name	Age	Year Elected an Executive Officer	Position with the Company
Brian C. Walker	56	1996	President and Chief Executive Officer
Andrew J. Lock	64	2003	President, Herman Miller International
Gregory J. Bylsma	53	2009	President, North America Contract
Steven C. Gane	63	2009	President, Specialty Brands
Jeffrey M. Stutz	47	2009	Executive Vice President, Chief Financial Officer
B. Ben Watson	53	2010	Chief Creative Officer
H. Timothy Lopez	47	2014	Senior Vice President of Legal Services, General Counsel and Secretary
John McPhee	55	2015	President, Herman Miller Consumer
John Edelman	51	2015	Chief Executive Officer, Herman Miller Consumer
Kevin Veltman	43	2015	Vice President, Investor Relations & Treasurer
Jeremy Hocking	57	2017	Executive Vice President, Strategy and Business Development

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

Mr. Edelman joined Herman Miller, Inc. in 2015 subsequent to the company's acquisition of DWR. Prior to joining DWR as President and Chief Executive Officer in 2010, he served as President and CEO of Edelman Leather and Sam & Libby, Inc., where he was responsible for its U.S. business.

Mr. McPhee joined Herman Miller, Inc. in 2015 subsequent to 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 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.

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 26, 2018, there were approximately 19,500 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 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
Year ended June 3, 2017:					
First quarter	$36.46	$27.87	$35.94	$ 0.60	$ 0.1700
Second quarter	36.14	26.99	32.65	0.53	0.1700
Third quarter	36.45	29.75	30.45	0.37	0.1700
Fourth quarter	34.05	28.55	32.70	0.55	0.1700
Year	$36.46	$26.99	$32.70	$ 2.05	$ 0.6800

Dividends were declared and paid quarterly during fiscal 2018 and 2017 as approved by the Board of Directors.

On July 2, 2018, the company's board of directors approved an increase in the quarterly dividend to $0.1975 per share. This payment will be made on October 15, 2018 to shareholders of record at the close of business on September 1, 2018. 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 2, 2018:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share or Unit	Total Number of Share (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 (1)
3/4/18 - 3/31/18	65,767	32.24	65,767	$ 76,324,290
4/1/18 - 4/28/18	301,500	32.10	301,500	$ 66,647,521
4/29/18 - 6/2/18	143,566	31.75	143,566	$ 62,088,967
Total	510,833		510,833	

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

The company has a share repurchase plan authorized by the Board of Directors on September 28, 2007, which provided share repurchase authorization of $300.0 million with no specified expiration date. The company may purchase up to an additional $62.1 million of shares under its existing common stock repurchase program.

No repurchase plans expired or were terminated during the fourth quarter of fiscal 2018. 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 2, 2018. The graph assumes an investment of $100 on June 2, 2013 in the company's common stock, the Standard & Poor's 500 Stock Index and the NASD Non-Financial Index, with dividends reinvested.

	2013	2014	2015	2016	2017	2018
Herman Miller, Inc.	$100	$113	$102	$119	$125	$129
S&P 500 Index	$100	$118	$129	$129	$150	$168
NASD Non-Financial	$100	$124	$150	$148	$192	$228

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)	2018	2017	2016	2015	2014
Operating Results					
Net sales	$2,381.2	$2,278.2	$2,264.9	$2,142.2	$1,882.0
Gross margin	873.0	864.2	874.2	791.4	631.0
Selling, general, and administrative (8)	622.4	600.3	585.6	556.6	590.8
Design and research	73.1	73.1	77.1	71.4	65.9
Operating earnings (loss)	177.5	190.8	211.5	163.4	(25.7)
Earnings (loss) before income taxes	168.1	177.6	196.6	145.2	(43.4)
Net earnings (loss)	128.7	124.1	137.5	98.1	(22.1)
Cash flow from operating activities	166.5	202.1	210.4	167.7	90.1
Cash flow used in investing activities	(62.7)	(116.3)	(80.8)	(213.6)	(48.2)
Cash flow (used in) provided by financing activities	2.5	(74.6)	(106.5)	6.8	(22.4)
Depreciation and amortization	66.9	58.9	53.0	49.8	42.4
Capital expenditures	70.6	87.3	85.1	63.6	40.8
Common stock repurchased plus cash dividends paid	88.9	63.2	49.0	37.0	43.0
Key Ratios					
Sales growth	4.5 %	0.6 %	5.7 %	13.8 %	6.0 %
Gross margin (1)	36.7	37.9	38.6	36.9	33.5
Selling, general, and administrative (1) (8)	26.1	26.3	25.9	26.0	31.4
Design and research (1)	3.1	3.2	3.4	3.3	3.5
Operating earnings (1)	7.5	8.4	9.3	7.6	(1.4)
Net earnings growth (decline)	3.7	(9.7)	40.2	543.9	(132.4)
After-tax return on net sales (4)	5.4	5.4	6.1	4.6	(1.2)
After-tax return on average assets (5)	9.2	9.8	11.3	9.0	(2.3)
After-tax return on average equity (6)	20.5 %	22.3 %	29.1 %	25.0 %	(6.5)%
Share and Per Share Data					
Earnings (loss) per share-diluted	$2.12	$2.05	$2.26	$1.62	$(0.37)
Cash dividends declared per share	0.72	0.68	0.59	0.56	0.53
Book value per share at year end (9)	11.22	9.82	8.76	7.04	6.14
Market price per share at year end	32.85	32.70	31.64	27.70	31.27
Weighted average shares outstanding-diluted	60.3	60.6	60.5	60.1	59.0
Financial Condition					
Total assets	$1,479.5	$1,306.3	$1,235.2	$1,192.7	$995.6
Working capital (3)	231.6	106.2	90.5	110.1	83.2
Current ratio (2)	1.6	1.3	1.2	1.3	1.2
Interest-bearing debt and related swap agreements (10)	265.1	197.8	221.9	290.0	250.0
Stockholders' equity	664.8	587.7	524.7	420.3	364.3
Total capital (7)	929.9	785.5	746.6	710.3	614.3

(1) Shown as a percent of net sales.
(2) Calculated using current assets divided by current liabilities.
(3) Calculated using current assets less non-interest bearing current liabilities.
(4) Calculated as net earnings (loss) divided by net sales.
(5) Calculated as net earnings (loss) divided by average assets.
(6) Calculated as net earnings (loss) divided by average equity.

(7) Calculated as interest-bearing debt plus stockholders' equity.
(8) Selling, general, and administrative expenses include restructuring and impairment expenses in years that are applicable.
(9) Calculated as total stockholders' equity divided by common shares of stock outstanding.
(10) 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 $(9.9) million at June 3, 2018, $(2.1) million at June 3, 2017, $1.2 million at May 29, 2010, $2.4 million at May 30, 2009, and $0.5 million at May 31, 2008.

Review of Operations (In millions, except key ratios and per share data)	2013	2012	2011	2010	2009	2008
Operating Results						
Net sales	$1,774.9	$1,724.1	$1,649.2	$1,318.8	$1,630.0	$2,012.1
Gross margin	605.2	590.6	538.1	428.5	527.7	698.7
Selling, general, and administrative (8)	430.4	400.3	369.0	334.4	359.2	400.9
Design and research	59.9	52.7	45.8	40.5	45.7	51.2
Operating earnings	114.9	137.6	123.3	53.6	122.8	246.6
Earnings before income taxes	97.2	119.5	102.5	34.8	98.9	230.4
Net earnings	68.2	75.2	70.8	28.3	68.0	152.3
Cash flow from operating activities	136.5	90.1	89.0	98.7	91.7	213.6
Cash flow used in investing activities	(209.7)	(58.4)	(31.4)	(77.6)	(29.5)	(51.0)
Cash flow used in financing activities	(16.0)	(1.6)	(50.2)	(78.9)	(16.5)	(86.5)
Depreciation and amortization	37.5	37.2	39.1	42.6	41.7	43.2
Capital expenditures	50.2	28.5	30.5	22.3	25.3	40.5
Common stock repurchased plus cash dividends paid	22.7	7.9	6.0	5.7	19.5	287.9
Key Ratios						
Sales growth (decline)	2.9 %	4.5 %	25.1 %	(19.1)%	(19.0)%	4.9 %
Gross margin (1)	34.1	34.3	32.6	32.5	32.4	34.7
Selling, general, and administrative (1) (8)	24.3	23.2	22.4	25.4	22.0	19.9
Design and research (1)	3.4	3.1	2.8	3.1	2.8	2.5
Operating earnings (1)	6.5	8.0	7.5	4.1	7.5	12.3
Net earnings growth (decline)	(9.3)	6.2	150.2	(58.4)	(55.4)	18.0
After-tax return on net sales (4)	3.8	4.4	4.3	2.1	4.2	7.6
After-tax return on average assets (5)	7.6	9	8.9	3.7	8.7	20.9
After-tax return on average equity (6)	24.7 %	34.4 %	52.5 %	78.1 %	860.8 %	186.4 %
Share and Per Share Data						
Earnings per share-diluted	$1.16	$1.29	$1.06	$0.43	$1.25	$2.56
Cash dividends declared per share	0.43	0.09	0.09	0.09	0.29	0.35
Book value per share at year end (9)	5.31	4.13	3.42	1.27	—	0.28
Market price per share at year end	28.11	17.87	24.56	19.23	14.23	24.80
Weighted average shares outstanding-diluted	58.8	58.5	57.7	57.5	54.5	59.6
Financial Condition						
Total assets	$951.2	$843.8	$819.1	$775.3	$772.0	$787.9
Working capital (3)	96.8	189.1	193.4	69.2	155.2	170.2
Current ratio (2)	1.3	1.7	1.7	1.2	1.5	1.5
Interest-bearing debt and related swap agreement (10)	250.0	250.0	250.0	301.2	377.4	375.5
Stockholders' equity	311.7	240.5	197.2	72.3	0.2	15.6
Total capital (7)	561.7	490.5	447.2	373.5	377.6	391.1

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

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. A past recipient of the Smithsonian Institution's Cooper Hewitt National Design Award, Herman Miller designs can be found in the permanent collections of museums worldwide. Herman Miller maintains its listing in the Human Rights Campaign Foundation’s top rating in its annual Corporate Equality Index. 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, France, Germany, Italy, Japan, Korea, Mexico, Australia, Singapore, China, Hong Kong, India, Brazil and the Netherlands. 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). 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 Consumer business through the company's subsidiary, Design Within Reach (DWR). The Consumer 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 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.

The business 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 American Furniture Solutions — Includes the operations associated with the design, manufacture, and sale of furniture products for work-related settings, including office, education, and healthcare environments, throughout the United States and Canada.
- ELA Furniture Solutions — ELA Furniture Solutions 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.
- Specialty — Includes the operations associated with design, manufacture and sale of high-craft furniture products and textiles including Geiger wood products, Maharam textiles, Nemschoff and Herman Miller Collection products.
- Consumer — Includes 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 Design Within Reach (DWR) studios.

The company also reports a corporate category consisting primarily of unallocated corporate expenses including acquisition-related costs and other unallocated corporate costs.

Core Strengths
The company relies on the following core strengths in delivering solutions to customers:

- Portfolio of Leading Brands - Herman Miller is a globally-recognized, authentic brand known for working with some of the most outstanding designers in the world. Within the industries in which the company operates, Herman Miller, DWR, Geiger, Maharam, POSH, Nemschoff, Colbrook Bosson Saunders ("CBS") 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 company's brand equity 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 of 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.

- Leading Networks - The company values relationships in all areas of the business. The company considers its network of innovative designers, owned and independent dealers and suppliers to be among the most important competitive factors and vital to the long-term success of the business.

- Multi-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.

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 and 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. The company recognizes revenue on product sales through this channel once products are shipped and title passes to the dealer. Many of these dealers also offer furniture-related services, including product installation.

- Direct Customer 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. The company recognizes revenue on these sales once the related product is shipped to the end customer and installation, if applicable, is substantially complete.

- DWR Retail Studios - At the end of fiscal 2018, the Consumer business unit included 32 retail studios (including 31 operating under the DWR brand and a Herman Miller Flagship store in New York City). This business also operates two outlet studios. The retail studios are located in metropolitan areas throughout North America. Revenue on sales from these studios is recognized upon shipment and transfer to the customer of both title and risk of loss.

- 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 online store, dwr.com. These sites complement our existing methods of distribution and extend the company's brand to new customers. The company recognizes revenue on these sales upon shipment and transfer to the customer of both title and risk of loss.

- DWR Direct-Mail Catalogs - The company’s consumer 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. Revenue on sales transacted through this catalog program is recognized upon shipment and transfer to the customer of both title and risk of loss.

- Independent Retailers - Certain products are sold to end customers through independent retail operations. Revenue is recognized on these sales once products are shipped and title and risk of loss passes to the independent retailer.

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 the business and industry. Refer to Item 1A for discussion of certain of these risk factors and Item 7A for disclosures of market risk. In particular, the company has recently experienced the negative impact of higher steel costs and increased pressures from competitive price discounting, particularly in the North America and ELA markets.

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 five key priorities.

Scaling Consumer - The company has an ambition to expand the connection of its powerful brand more directly with the consumers of its products. The transformation of the Design Within Reach retail studio footprint will continue to add incremental selling space from a combination of new and repositioned studios. Studio expansions will be complemented by a continued focus on improving margins and profitability through the development of exclusive product designs and leveraging additional sales in our contract, catalog and digital channels.

Realizing the Living Office - In fiscal 2014, the company introduced Living Office, a research-based framework for designing high-performing workplaces that deliver an elevated experience of work for people and help organizations achieve their strategic goals. The company is now focusing on taking the framework to the next level by accelerating the evolution of Living Office with new products and technology solutions, along with research that quantifies the positive impact to organizations from applying these concepts.

Delivering Innovation - Product innovation has been a traditional strength at Herman Miller, and the company is determined to keep this dimension of its business as a competitive edge. With creative direction and new product commercialization under common leadership, the company is focused on reducing its time to market and meeting our customers' most critical needs through a robust pipeline of new products and solutions.

Leveraging the “Dealer Eco-System” - The company recognizes that the preferences and needs of its customers are evolving in favor of a greater mix of collaborative furnishings. The company intends to leverage the strength of its broad product offer in addressing this shifting market need. To this end, the company has dedicated resources under the Herman Miller Elements umbrella to best position the Herman Miller Collection, Maharam, Geiger, Design Within Reach and Naughtone brands for further growth in this space. The company complements this focused selling effort with enhanced digital platforms designed to make it easier for its contract customers and dealer partners to find, specify and order products from any brand within the Herman Miller Group.

Driving Profit Optimization - A three-year cost savings initiative that was announced in fiscal 2017 is aimed at achieving between $25 million and $35 million in gross annual cost reductions by fiscal 2020. While these efforts will help offset potential wage and material inflation and help fund growth initiatives, the targeted cost reductions will also play a key role in achieving our goal to increase operating margins. In 2018, two additional profit optimization phases were initiated in partnership with a third party consulting firm. The first phase is a Consumer-focused initiative targeting $15 million to $20 million of gross annual profit improvement that began producing benefits in the fourth quarter of fiscal 2018 and aims to achieve its run-rate savings target by the end of fiscal 2019. The second phase, focusing on the company's North American Furniture Solutions segment, is in the early planning phases with initial opportunity estimates of $20 million to $40 million that will be further defined over the upcoming fiscal year.

The company believes its strategy continues to respond well to current and future realities in its markets. As the company has expanded addressable market over the past five years, these initiatives will help leverage its unique multi-channel capabilities to deliver its leading designs and innovations to new audiences virtually anywhere in the world.

Industry Analysis

The Business and Institutional Furniture Manufacturer's Association (BIFMA) is the trade association for the North American contract furniture industry. The company monitors the trade statistics reported by BIFMA and considers them an indicator of industry-wide sales and order performance. BIFMA publishes statistical data for the contract segment and the office supply segment, including healthcare and education end markets, within the North American market. The contract segment of the industry relates primarily to products sold to large to mid-size corporations and installed via a network of dealers. The office supply segment relates primarily to products sold to smaller customers via wholesalers and retailers. The company participates, and is a leader in, the contract segment. Further, the company's business presence in the consumer sector lessens its dependence on the North American contract office furniture market.

The company analyzes BIFMA statistical information as a benchmark comparison against the performance of its contract business in North America and also to that of its competitors. The timing of large project-based business may affect comparisons to this data in any one period. Finally, BIFMA regularly provides its members with industry forecast information, which the company uses internally as one of several considerations in its short and long-range planning process.

The company also monitors trade statistics reported by the U.S. Census Bureau, which reports monthly retail sales growth data across a number of retail categories, including Furniture and Home Furnishing Stores. This information provides a relative comparison to our Consumer reportable segment.

Looking forward, BIFMA believes that the general economic outlook for the company's industry in the United States is expected to be positive. BIFMA issued its most recent report in April 2018, which forecasts that the growth rate of office furniture sales will be 1.9 percent and 3.6 percent in calendar 2018 and 2019, respectively. This forecast of growth is based primarily on GDP growth, industrial production, business fixed investments and a favorable tax and regulatory environment in the U.S., tempered by the current global economic uncertainty.

Discussion of Business Conditions

Fiscal 2018 and fiscal 2017 contain 52 and 53 weeks, respectively. The additional week is required periodically to more closely align the company's fiscal year with the calendar months. This additional week of operations increased fiscal 2017 net sales by approximately $37 million. This is a factor that should be considered when comparing the company's financial results to the prior year.

Net sales increased in 2018 to $2,381.2 million, an increase of 4.5 percent from the prior fiscal year. On an organic basis, which adjusts for dealer divestitures, changes in foreign currency translation rates, a change in shipping terms at DWR and the impact of the extra week, net sales increased by 6.5 percent(1) compared to last fiscal year. Each of our segments generated year-over-year net sales growth through a general increase in demand when compared to the prior year. This growth was led by the ELA segment behind strong order generation in the EMEA and Latin America regions as well as the Consumer segment, with growth in net sales driven by the recent work to transform the DWR retail studio footprint as well as other growth initiatives at DWR.

While relatively high commodity costs and a competitive pricing environment pressured gross margins compared to last year, operating expenses were controlled during the year, helping to deliver diluted earnings per share of $2.12 and adjusted diluted earnings per share of $2.30(1), which represents growth of 3 percent and 6 percent, respectively, when compared to prior year diluted earnings per share of $2.05 and adjusted diluted earnings per share of $2.16(1). Operating cash flow generation of $166.5 million for the year enabled the company to invest $70.6 million in property, plant and equipment; repurchase $46.5 million of company shares; and, subsequent to the end of the fiscal year, announce both a 10 percent increase in the quarterly dividend to $0.1975 per share - the highest quarterly rate in Herman Miller's history - as well as investments in Maars Living Walls and HAY.

Following a relatively flat year for sales growth in fiscal 2017, the North America segment saw order generation improve during fiscal 2018 and generated sales growth of 0.6 percent during the year and 4.2 percent growth on an organic basis(1). While the prior year results were tempered by an uncertain political environment in the United States, the current year results reflect improved confidence in the U.S. economy and a generally positive response to the 2018 U.S. corporate income tax reform. Additionally, the North America segment continues to realize the benefits of the Living Office framework and the recent improvements within the company's new product development process and focus on an enhanced product offering. The North America segment saw a $10 million decrease in operating earnings during the year due to increased discounting and pricing pressures in the market; increased commodity costs and incremental out-sourcing costs earlier in the year due to capacity constraints in certain product lines. The $166.3 million of operating earnings generated during the year represented 12.9 percent of net sales for fiscal 2018.

The ELA segment recorded a 12.7 percent increase in net sales during the year, 11.3 percent(1) after adjusting for the impact of changes in foreign currency and the extra week of operations in the prior fiscal year. The growth in net sales reflects a significant increase in order generation during the current year with order growth of 17.2 percent or 16.9 percent(1) on an organic basis. The ELA segment saw broad-based growth across much of its business, with the EMEA and Latin America regions leading the way. This reflects an improved economic outlook in key regional markets such as Mexico and Brazil as well as growth across mainland Europe helping to offset the continued uncertainty around the United Kingdom's Brexit within the EMEA region. The ELA segment posted a $0.4 million decline in operating earnings relative to the prior year. However, after adjusting for the impact of restructuring and other special charges recognized in the current fiscal year, adjusted operating earnings improved by 14 percent(1) behind the significant orders and net sales growth during the year.

Sales for the Specialty segment were 2.5 percent higher than prior year, as reported, and were 3.9 percent higher on an organic basis(1), adjusting primarily for the impact of the extra week in the fiscal 2017 results. The growth in the Specialty businesses was led by the Geiger and Herman Miller Collection components which saw net sales growth of

13 percent and 12 percent, respectively, as reported during the year. This growth was partially offset by lighter sales performance at Nemschoff and Maharam. While operating earnings for the segment increased by 10 percent during the year, adjusted operating earnings decreased by 45 percent[(1)] during the year primarily due to challenges faced by Nemschoff in fiscal 2018 from lower volume, unfavorable product mix, a supplier disruption earlier in the year and increased warranty costs. Specialty did see strong profitability from other components of the segment during the current year, and these leading design brands continued to provide a strong connection with the architect and design community and help the company to meet its customers' needs for both traditional workspaces and collaborative areas.

The company's Consumer segment generated net sales growth of 12.2 percent on an as reported and on an organic basis[(1)]. DWR delivered four quarters of comparable brand[(2)] growth during the year. Operating earnings and adjusted operating earnings increased by 190 percent and 157 percent[(1)], respectively, behind the strong net sales growth. The studio real estate expansion and investments to support long-term growth in the Consumer business generated top-line growth, as well as improved profitability. During the fourth quarter, the Consumer segment also began realizing the initial benefits from the profit optimization efforts that began earlier in the year. Additionally, growth this year from studios, eCommerce, catalog and contract channels highlighted management's focus to improve the segment's performance across all channels.

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

(2) DWR comparable brand sales reflects the year-over-year change in net sales across the multiple channels that DWR serves, including studios, outlets, contract, catalog, phone and e-commerce. Comparable brand growth in fiscal 2017 was presented on a pro forma basis using a 52-week average to normalize results for the impact of an extra week of operations in the first quarter of fiscal 2017.

Reconciliation of Non-GAAP Financial Measures

This report contains references to Adjusted diluted earnings per share ("EPS"), Organic net sales and Adjusted operating earnings, all of which are non-GAAP financial measures (referred to collectively as the "Adjusted financial measures"). Adjusted diluted EPS and Adjusted operating earnings are calculated by excluding from Earnings per share - diluted and Operating earnings, items that we believe are not indicative of our ongoing operating performance, such as non-recurring gains; expenses associated with restructuring actions taken to adjust our cost structure to the current business climate; other special charges not indicative of ongoing performance such as costs associated with the CEO transition plan announced in fiscal 2018; and non-cash impairment expenses. Organic net sales represents the change in sales excluding currency translation effects, the divestiture of owned dealers, the impact of the change in DWR shipping terms in fiscal 2018 and the impact of an extra week of operations in fiscal 2017 as compared to fiscal 2018. These adjustments are made to provide enhanced comparability of the company's current results with historical results.

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, Operating earnings 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 2, 2018					June 3, 2017				
	North America	ELA	Specialty	Consumer	Total	North America	ELA	Specialty	Consumer	Total
Net Sales, as reported	$1,284.4	$434.5	$305.4	$356.9	$2,381.2	$1,276.6	$385.5	$298.0	$318.1	$2,278.2
% change from PY	0.6 %	12.7 %	2.5 %	12.2 %	4.5 %					
Proforma Adjustments										
Dealer Divestitures	—	—	—	—	—	(25.8)	—	—	—	(25.8)
Currency Translation Effects (1)	(3.9)	(12.6)	(0.1)	(0.2)	(16.8)	—	—	—	—	—
Impact of Extra Week in FY17	—	—	—	—	—	(21.7)	(6.3)	(4.3)	(4.7)	(37.0)
Impact of Change in DWR Shipping	—	—	—	(5.0)	(5.0)	—	—	—	—	—

Terms										
Organic net sales	$1,280.5	$421.9	$305.3	$351.7	$2,359.4	$1,229.1	$379.2	$293.7	$313.4	$2,215.4
% change from PY	4.2 %	11.3 %	3.9 %	12.2 %	6.5 %					
	June 3, 2017					May 28, 2016				
	North America	ELA	Specialty	Consumer	Total	North America	ELA	Specialty	Consumer	Total
Net Sales, as reported	$1,276.6	$385.5	$298.0	$318.1	$2,278.2	$1,269.4	$412.6	$294.2	$288.7	$2,264.9
% change from PY	0.6 %	(6.6)%	1.3 %	10.2 %	0.6 %					
Adjustments										
Dealer Divestitures	—	—	—	—	—	(8.8)	(30.8)	—	—	(39.6)
Currency Translation Effects [1]	0.7	13.9	—	—	14.6	—	—	—	—	—
Impact of Extra Week in FY17	(21.7)	(6.3)	(4.3)	(4.7)	(37.0)	—	—	—	—	—
Organic net sales	$1,255.6	$393.1	$293.7	$313.4	$2,255.8	$1,260.6	$381.8	$294.2	$288.7	$2,225.3
% change from PY	(0.4)%	3.0%	(0.2)%	8.6%	1.4%					

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

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

	June 2, 2018						June 3, 2017					
	North America	ELA	Specialty	Consumer	Corporate	Total	North America	ELA	Specialty	Consumer	Corporate	Total
Operating Earnings (Loss)	$166.3	$35.5	$8.9	$13.9	$(47.1)	$177.5	$176.0	$35.9	$8.1	$4.8	$(34.0)	$190.8
% Net Sales	12.9 %	8.2 %	2.9 %	3.9 %	n/a	7.5 %	13.8 %	9.3 %	2.7 %	1.5 %	n/a	8.4 %
Add: Special charges	—	2.5	—	—	11.3	13.8	—	—	—	—	—	—
Add: Impairment charges	—	—	—	—	—	—	—	—	7.1	—	—	7.1
Less: Gain on sale of dealer	—	—	—	—	—	—	(0.7)	—	—	—	—	(0.7)
Add: Restructuring expenses	1.8	3.9	—	—	—	5.7	2.9	1.0	0.9	0.6	—	5.4
Adjusted Operating Earnings (Loss)	$168.1	$41.9	$8.9	$13.9	$(35.8)	$197.0	$178.2	$36.9	$16.1	$5.4	$(34.0)	$202.6

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

	June 2, 2018	June 3, 2017
Earnings per Share - Diluted	$ 2.12	$ 2.05
Add: Other special charges	0.16	—
Add: Impairment charges	—	0.07
Less: Gain on sale of dealer	—	(0.02)
Add: Restructuring expenses	0.07	0.06
Less: One-time impact of adopting U.S. Tax Cuts and Jobs Act	(0.05)	—
Adjusted Earnings per Share - Diluted	$ 2.30	$ 2.16
Weighted Average Shares Outstanding (used for Calculating Adjusted Earnings per Share) – Diluted	60,311,305	60,554,589

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 2018 52 weeks	% Change from 2017	Fiscal 2017 53 weeks	% Change from 2016	Fiscal 2016 52 weeks
Net sales	$2,381.2	4.5 %	$2,278.2	0.6 %	$2,264.9
Cost of sales	1,508.2	6.7 %	1,414.0	1.7 %	1,390.7
Gross margin	873.0	1.0 %	864.2	(1.1)%	874.2
Operating expenses	695.5	3.3 %	673.4	1.6 %	662.7
Operating earnings	177.5	(7.0)%	190.8	(9.8)%	211.5
Net other expenses	9.4	(28.8)%	13.2	(11.4)%	14.9
Earnings before income taxes	168.1	(5.3)%	177.6	(9.7)%	196.6
Income tax expense	42.4	(23.0)%	55.1	(7.4)%	59.5
Equity income from nonconsolidated affiliates, net of tax	3.0	87.5 %	1.6	300.0 %	0.4
Net earnings	128.7	3.7 %	124.1	(9.7)%	137.5
Net earnings attributable to noncontrolling interests	0.6	200.0 %	0.2	(75.0)%	0.8
Net earnings attributable to Herman Miller, Inc.	$128.1	3.4 %	$123.9	(9.4)%	$136.7

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 2018	Fiscal 2017	Fiscal 2016
Net sales	100.0%	100.0%	100.0%
Cost of sales	63.3	62.1	61.4
Gross margin	36.7	37.9	38.6
Selling, general, and administrative expenses	25.9	25.8	25.9
Restructuring and impairment expenses	0.2	0.5	—
Design and research expenses	3.1	3.2	3.4
Total operating expenses	29.2	29.6	29.3
Operating earnings	7.5	8.4	9.3
Net other expenses	0.4	0.6	0.7
Earnings before income taxes	7.1	7.8	8.7
Income tax expense	1.8	2.4	2.6
Equity income from nonconsolidated affiliates, net of tax	0.1	0.1	—
Net earnings	5.4	5.4	6.1
Net earnings attributable to noncontrolling interests	—	—	—
Net earnings attributable to Herman Miller, Inc.	5.4	5.4	6.0

Net Sales, Orders and Backlog - Fiscal 2018 Compared to Fiscal 2017

Consolidated net sales increased $103.0 million to $2,381.2 million from $2,278.2 million for the fiscal year ended June 2, 2018 compared to the fiscal year ended June 3, 2017. The following items contributed to the change:

- Sales volumes within the North American segment increased by approximately $61 million, resulting from increased demand within the company's North America office furniture businesses.
- Increased sales volumes within the ELA segment of approximately $54 million were driven by broad-based growth, primarily within the Latin America and EMEA regions.
- Incremental sales volumes within the Consumer segment of approximately $44 million were driven by growth across the DWR studio, e-commerce and contract channels and by a change in shipping terms at Design Within Reach that resulted in approximately $5 million of net sales being accelerated into the first quarter of fiscal 2018.
- Foreign currency translation had a positive impact on net sales of approximately $16 million.
- Increased sales volumes within the Specialty segment of approximately $12 million due primarily to increased sales volumes for the Herman Miller Collection and Geiger subsidiary.
- Deeper contract price discounting, net of incremental price increases, reduced net sales in fiscal 2018 by roughly $21 million as compared to the prior year. Of this change, approximately $11 million related to the ELA operating segment and approximately $10 million related to the North American operating segment.
- The impact of the divestiture of the company's dealerships in Vancouver, Canada in the first quarter of fiscal 2018 and Philadelphia, Pennsylvania in the third quarter of fiscal 2017 had the effect of reducing sales by $26 million as compared to the prior fiscal year.
- Fiscal 2018 had 52 weeks as compared to fiscal 2017, which had 53 weeks. The impact of one less week in the current year decreased net sales by approximately $37 million compared to the prior fiscal year.

Consolidated net trade orders for fiscal 2018 totaled $2,408.2 million compared to $2,282.9 million in fiscal 2017, an increase of 5.5 percent. On an organic basis, which excludes the impact of the extra week in fiscal 2017 as well as foreign currency translation and dealer divestitures, orders increased by 7.7 percent from last fiscal year. Order rates began the year at an average pace of approximately $46 million per week for the first quarter and $48 million per week for the second quarter. For the third quarter, weekly order rates decreased to an average of approximately $43 million per week, reflecting typical seasonality in order pacing during that period of the fiscal year. The fourth quarter finished the year with average weekly order rates increasing to approximately $48 million. The impact of changes in foreign currency for the fiscal year increased net orders by approximately $14.6 million as compared to the prior year. Dealer divestitures had a $24.2 million unfavorable impact on current year orders, and the extra week in fiscal 2017 generated an additional $36.9 million of orders in the prior fiscal year.

The company's backlog of unfilled orders at the end of fiscal 2018 totaled $344.5 million, a 6.8 percent increase from fiscal 2017 ending backlog of $322.6 million. In fiscal 2018, the company completed the sale of its dealership in Vancouver. This dealer divestiture resulted in a reduction to the consolidated ending fiscal 2018 backlog of approximately $5.0 million.

BIFMA reported an estimated period-over-period increase in U.S. office furniture shipments of approximately 1.4 percent for the twelve-month period ended May 2018. By comparison, net sales increased for the company's North America segment by approximately 0.6 percent for the twelve month period ended May 2018 as compared to the prior year. However, on an organic basis, net sales within the North America segment increased 4.2 percent(1) when compared to the prior year.

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

The company also monitors trade statistics reported by the U.S. Census Bureau, which reports monthly retail sales growth data across a number of retail categories, including Furniture and Home Furnishing Stores. This information provides a relative comparison to our Consumer reportable segment, but is not intended to be an exact comparison. The average monthly year-over-year growth rate in sales for the Furniture and Home Furnishing Stores category for the twelve month period ended June 2, 2018, was approximately 5.3 percent. By comparison, net sales growth for the company's Consumer segment was approximately 12.2 percent during fiscal 2018.

Net Sales, Orders and Backlog - Fiscal 2017 Compared to Fiscal 2016

Consolidated net sales increased $13.3 million to $2,278.2 million from $2,264.9 million for the fiscal year ended June 3, 2017 compared to the fiscal year ended May 28, 2016. The following items contributed to the change:

- Fiscal 2017 had 53 weeks as compared to the same period of fiscal 2016, which had 52 weeks. The impact of this additional week increased net sales by approximately $37 million.
- Incremental sales volumes within the Consumer segment of approximately $25 million were due mainly to improvements across several Consumer sales channels, including studios, contract, e-commerce and direct-mail catalogs.
- Increased sales volumes within the North American segment of approximately $21 million resulted primarily from increased demand within the company's Healthcare business unit, along with growth late in the fiscal year in the North America office furniture business.
- Increased sales volumes within the ELA segment of approximately $17 million were driven by increases within the Europe, Latin America and Asia regions. The largest increases were due to larger project activity in mainland Europe, Mexico, Brazil, Japan and China.
- Foreign currency translation had a negative impact on net sales of approximately $15 million.
- Deeper discounting, net of incremental price increases, reduced net sales in fiscal 2017 by roughly $32 million as compared to the prior year. Of this change, $26 million related to the North American operating segment.
- The impact of the divestiture of the company's dealerships in Australia in fiscal 2016 and Philadelphia, Pennsylvania in fiscal 2017 had the effect of reducing net sales by $39.6 million in fiscal 2017 as compared to the prior fiscal year.

Consolidated net trade orders for fiscal 2017 totaled $2,282.9 million compared to $2,279.7 million in fiscal 2016, an increase of 0.1 percent. On an organic basis, which excludes the impact of the extra week in fiscal 2017, as well as foreign currency translation and dealer divestitures, orders increased by 0.9 percent from fiscal 2016. Order rates began the year at an average pace of approximately $43 million per week for the first quarter of fiscal 2017 and $44 million per week for the second quarter of fiscal 2017. For the third quarter of fiscal 2017, weekly order rates decreased to an average of approximately $42 million per week, reflecting typical seasonality in order pacing during that period of the fiscal year. The fourth quarter of fiscal 2017 finished the year with average weekly order rates increasing to approximately $44 million. The weekly order pacing in the third quarter and the fourth quarter of fiscal 2017 was impacted by the price increase that was announced during the third quarter of fiscal 2017. This caused approximately $21 million of orders that otherwise would have been entered in the fourth quarter, to be entered in the third quarter. When adjusting for this impact, the weekly pacing of orders for the third quarter and fourth quarter of fiscal 2017 was $40 million per week and $45 million per week, respectively. The impact of changes in foreign currency for the fiscal year decreased net orders by approximately $8.7 million as compared to fiscal 2016.

The company's backlog of unfilled orders at the end of fiscal 2017 totaled $322.6 million, a 0.3 percent decrease from fiscal 2016 ending backlog of $323.5 million. In fiscal 2017, the company completed the sale of its dealership in Philadelphia. This dealer divestiture resulted in a reduction to the consolidated ending backlog of approximately $11.6 million.

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

BIFMA reported an estimated period-over-period increase in U.S. office furniture shipments of approximately 2.0 percent for the twelve-month period ended May 2017. By comparison, net sales increased for the company's North American Contract segment by approximately 0.8 percent over the twelve months ended May 2017.

The average monthly year-over-year growth rate in sales for the Furniture and Home Furnishing Stores category for the twelve month period ended June 3, 2017, was approximately 2.9 percent. By comparison, net sales growth for the company's Consumer segment was approximately 10.2 percent.

Gross Margin - Fiscal 2018 Compared to Fiscal 2017

Consolidated gross margin for fiscal 2018 was 36.7 percent, a decrease of 120 basis points from the fiscal 2017 level. The following factors summarize the major drivers of the year-over-year decrease in gross margin percentage:

- Incremental price discounting, net of price increases, reduced the company's consolidated gross margin by approximately 100 basis points relative to the same period of last fiscal year.
- Material cost performance was impacted favorably as a result of value engineering, insourcing and supplier cost reductions at the company's West Michigan manufacturing facilities, which increased gross margin by approximately 60 basis points as compared to the same period of the prior fiscal year.
- An unfavorable change in product mix that was driven by a shift out of seating and into lower margin product categories, as well as a move from higher margin seating to lower margin seating, drove a decrease of approximately 40 basis points as compared to last fiscal year.
- Higher commodity costs drove an unfavorable year-over-year margin impact of approximately 40 basis points.

Gross Margin - Fiscal 2017 Compared to Fiscal 2016

Consolidated gross margin for fiscal 2017 was 37.9 percent, a decrease of 70 basis points from the fiscal 2016 level. The following factors summarize the major drivers of the year-over-year decrease in gross margin percentage:

- Incremental price discounting, net of price increases, reduced the company's consolidated gross margin by approximately 90 basis points relative to fiscal 2016.
- Higher commodity costs within the North American operating segment in fiscal 2017 drove an unfavorable impact of approximately 40 basis points relative to fiscal 2016.
- The divestiture of the company's dealerships in Australia and Philadelphia, Pennsylvania in fiscal 2016 and 2017, respectively, resulted in a favorable impact of approximately 30 basis points in fiscal 2017 relative to fiscal 2016.
- A decrease in employee incentive costs increased consolidated gross margin by 30 basis points in fiscal 2017 relative to fiscal 2016. The decrease reflects lower employee incentive costs that are variable based on the achievement of earnings levels for the fiscal year relative to plan.
- Improved material cost performance at the company's West Michigan manufacturing facilities driven by process engineering initiatives increased gross margin by approximately 20 basis points in fiscal 2017 as compared to fiscal 2016.
- Product mix at the company's West Michigan manufacturing facilities and material usage efficiencies at various international locations had a favorable impact on gross margin in fiscal 2017 as compared to fiscal 2016.

Operating Expenses - Fiscal 2018 Compared to Fiscal 2017

Operating expenses in fiscal 2018 were $695.5 million, or 29.2 percent of net sales, which compares to $673.4 million, or 29.6 percent of net sales in fiscal 2017. The following factors contributed to the change:

- Restructuring and special charges, primarily associated with the planned CEO transition, consulting fees related to the company's profit optimization initiatives and costs related to the International facilities consolidation plan increased operating expenses by $7.7 million compared to last fiscal year.
- Compensation and benefit costs increased approximately $8 million relative to last fiscal year due to headcount increases, wage inflation and higher employee incentive costs that are variable based on the achievement of earnings levels for the fiscal year relative to plan.
- Sales volume based costs, such as sales commissions and royalties, drove an increase in operating expenses of approximately $7 million.
- Incremental costs related to the continued growth and expansion of DWR retail studios increased operating expenses by approximately $5 million.
- Foreign currency translation had an incremental unfavorable impact on operating expenses of approximately $3 million.
- Depreciation expense increased by approximately $2 million and was driven primarily by investment in facilities.
- The divestiture of the company's dealerships in Vancouver and Philadelphia in fiscal 2018 and 2017, respectively, resulted in a decrease in operating expenses of $5.4 million.
- Operating expenses were approximately $9 million lower in the current year due to the extra week of operations included in the results of the prior year.

During fiscal 2018, the company reduced operating expenses by an estimated $14 million related to its previously announced cost savings initiatives. These cost savings were realized across several of the company's operating expense categories and offset spending on strategic initiatives, general inflationary pressures on operating expenses and lower relative gross margin performance in the current fiscal year compared to the same period in fiscal 2017.

Operating Expenses - Fiscal 2017 Compared to Fiscal 2016

Operating expenses in fiscal 2017 were $673.4 million, or 29.6 percent of net sales, which compares to $662.7 million, or 29.3 percent of net sales in fiscal 2016. The following factors contributed to the change:

- Fiscal 2017 results reflected restructuring and impairment expenses of $12.5 million. Restructuring charges related to targeted workforce reductions increased operating expenses by $5.4 million, while the impairment of the Nemschoff trade name increased operating expenses by $7.1 million.
- Marketing and selling expenses increased approximately $10 million during fiscal 2017, relative to fiscal 2016.
- The impact of an extra week in fiscal 2017 increased operating expenses by approximately $9 million.
- Incremental costs of approximately $8 million related to the continued growth and expansion of DWR retail studios increased operating expenses in fiscal 2017 as compared to fiscal 2016.
- Increased costs within the company's DWR subsidiary of approximately $5 million as a result of increased investment in information technology, infrastructure to support the contract channel and other business support functions.
- Lower employee incentive costs decreased operating expenses by $8.8 million in fiscal 2017 as compared to fiscal 2016. The decrease reflects lower incentive compensation costs that are variable based on the achievement of earnings levels for the fiscal year relative to plan.
- The divestiture of the company's dealerships in Australia and Philadelphia in fiscal 2016 and 2017, respectively, resulted in a decrease in operating expenses of $14.2 million during fiscal 2017 as compared to fiscal 2016.
- The remainder of the change was driven mainly by company-wide cost savings initiatives, decreases in stock-based compensation, research and development expenses and changes in foreign currency exchange rates.

Operating Earnings

In fiscal 2018, the company generated operating earnings of $177.5 million, a decrease of $13.3 million from fiscal 2017 operating earnings of $190.8 million. Fiscal 2018 had 52 weeks as compared to fiscal 2017, which had 53 weeks. The impact of the additional week in the prior year decreased operating earnings in fiscal 2018 relative to the prior fiscal year by approximately $5 million. Operating earnings of $190.8 million in fiscal 2017 represented a $20.7 million decrease from fiscal 2016 operating earnings of $211.5 million.

Other Expenses and Income

Net other expenses for fiscal 2018 were $9.4 million, a decrease of $3.8 million compared to net other expenses in fiscal 2017 of $13.2 million. The decrease in net other expenses in fiscal 2018 was primarily related to lower interest expense on outstanding debt, higher investment income on cash equivalents and foreign currency gains recorded in the current fiscal year relative to foreign currency losses recorded in the prior fiscal year.

Net other expenses for fiscal 2017 were $13.2 million, a decrease of $1.7 million compared to net other expenses in fiscal 2016 of $14.9 million. The decrease in net other expenses in fiscal 2017 was primarily related to higher investment income associated with the company's deferred compensation plan as compared to fiscal 2016.

Equity earnings from nonconsolidated affiliates for fiscal 2018 were $3.0 million, an increase of $1.4 million compared to Equity earnings from nonconsolidated affiliates of $1.6 million in fiscal 2017. This increase was driven by incremental earnings from the company's investment in Naughtone Holdings Limited ("Naughtone").

Equity earnings from nonconsolidated affiliates for fiscal 2017 were $1.6 million, an increase of $1.2 million compared to Equity earnings from nonconsolidated affiliates of $0.4 million in fiscal 2016. This increase was driven by incremental earnings from the company's Naughtone equity method investment. The company acquired a 50 percent noncontrolling equity interest in Naughtone on June 3, 2016.

Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was signed into law in the United States. The results of operations for fiscal 2018 included the effect of the enactment of the Act. 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.

Effective January 1, 2018 the federal income tax rate was reduced from 35 percent to 21 percent. For fiscal tax payers a full year federal income tax rate is calculated based upon the number of days in the year subject to the 35 percent and the 21 percent tax rates. As a result, the company’s statutory federal tax rate for the fiscal year ended June 2, 2018 was 29.1 percent.

The significant impacts of the Act include reduced fiscal 2018 income tax expense resulting from the reduced federal income tax rate; remeasurement of the deferred tax assets and liabilities to reflect the anticipated new, lower rate at which the deferred items will be realized; and the impact of the one-time transition tax on undistributed foreign earnings. See Note 10 of the Consolidated Financial Statements for additional information.

The company's effective tax rate was 25.2 percent in fiscal 2018, 31.1 percent in fiscal 2017 and 30.3 percent in fiscal 2016. The effective tax rate in fiscal 2018 was below the United States 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 Protecting Americans from Tax Hikes ("PATH") Act of 2015.

The effective tax rate in fiscal 2017 was below the statutory rate of 35 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 AJCA and the research and development tax credit under the PATH.

The effective tax rate in fiscal 2016 was below the statutory rate of 35 percent, primarily due to the domestic U.S. manufacturing deduction under the AJCA as well as a significant amount of foreign earnings subject to tax at foreign rates below 35 percent.

For further information regarding income taxes, refer to Note 10 of the Consolidated Financial Statements.

Net Earnings; Earnings per Share

In fiscal 2018, fiscal 2017, and fiscal 2016, the company generated net earnings attributable to Herman Miller, Inc. of $128.1 million, $123.9 million and $136.7 million, respectively. Diluted earnings per share were $2.12, $2.05 and $2.26 for fiscal 2018, fiscal 2017 and fiscal 2016, respectively.

Reportable Operating Segments

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.

Effective in the first quarter of fiscal 2018, the company moved the operating results of its Nemschoff subsidiary, which primarily focuses on healthcare, from its North America Furniture Solutions operating segment to its Specialty operating segment. This change was made to better leverage the skills and capabilities of the company's Specialty business teams, particularly in the areas of craft wood and upholstery manufacturing. Additionally, the company has refreshed its methodology of allocating selling, general and administrative costs to the operating segments. The company has also identified certain corporate support costs that will no longer be allocated to the operating segments and that will be tracked and reported as "Corporate Unallocated Expenses". The company made these changes in the way that it allocates and reports its costs to better reflect the utilization of functional services across its operating segments and to also more closely align to industry practice. Prior year results disclosed in the table below have been revised to reflect these changes.

The company has identified the following reportable segments:

- North American Furniture Solutions — Includes the operations associated with the design, manufacture and sale of furniture products for work-related settings, including office, education, and healthcare environments, throughout the United States and Canada.

- ELA Furniture Solutions — Includes EMEA, Latin America, and Asia-Pacific operations associated with the design, manufacture and sale of furniture products, primarily for work-related settings.

- Specialty — Includes operations associated with the design, manufacture, and sale of high-craft furniture products and textiles including Geiger wood products, Maharam textiles, Nemschoff and Herman Miller Collection products.

- Consumer — Includes operations associated with the sale of modern design furnishings and accessories to third party retail distributors, as well as direct to consumer sales through e-commerce, direct mailing catalogs and DWR retail 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 segment, for each reportable segment.

North American Furniture Solutions ("North America")

Fiscal 2018 Compared to Fiscal 2017

Net sales in the North America segment were $1,284.4 million in fiscal 2018, an increase of 0.6 percent from fiscal 2017 net sales of $1,276.6 million. Orders for fiscal 2018 totaled $1,294.1 million, an increase of 0.7 percent from the prior year. Operating earnings for North America in fiscal 2018 were $166.3 million or 12.9 percent of sales as compared to $176.0 million or 13.8 percent of sales in the prior year.

- Sales volumes within the North America segment increased by approximately $61 million, resulting from increased demand within the company's North America office furniture businesses.
- Fiscal 2017 included the full results of operations for the company’s dealership in Vancouver, Canada that was divested in the first quarter of fiscal 2018. Fiscal 2017 also included seven months of operations for the company's dealership in Philadelphia, Pennsylvania that was divested in the third quarter of fiscal 2017. Accordingly, the increase in sales volumes for the North American segment for fiscal 2018 was partially offset by a $25.8 million decrease in net sales due to these divestitures. The sale of these dealerships also decreased consolidated orders for the North American segment in fiscal 2018 as compared to fiscal 2017 by $24.2 million.
- The impact of an extra week in fiscal 2017 caused net sales and orders in fiscal 2018 to be lower than the prior year by approximately $21.7 million and $20.0 million, respectively.
- Incremental price discounting, net of price increases, in fiscal 2018 decreased net sales by approximately $10 million compared to the prior year.
- Operating earnings decreased in fiscal 2018 relative to the prior fiscal year due to the following items: incremental price discounting of roughly $10 million, increased commodity costs of approximately $10 million, a change in product mix with an unfavorable impact to earnings of an estimated $7 million, higher outsourcing costs of approximately $4 million and the impact of an extra week in fiscal 2017 which generated approximately $3 million of additional earnings in the prior fiscal year. These decreases were partially offset by increased operating earnings of an estimated $14 million from incremental sales volumes and the benefit of improved material cost performance of $11 million from value engineering, insourcing and supplier cost reductions.

Fiscal 2017 Compared to Fiscal 2016

Net sales in the North American segment were $1,276.6 million in fiscal 2017, an increase of 0.6 percent from fiscal 2016 net sales of $1,269.4 million. Orders for fiscal 2017 totaled $1,285.4 million, an increase of 1.2 percent from fiscal 2016. Operating earnings for North America in fiscal 2017 were $176.0 million or 13.8 percent of sales as compared to $187.6 million or 14.8 percent of sales in fiscal 2016.

- The impact of the extra week increased net sales by an estimated $21.7 million and increased orders by $20.0 million for fiscal 2017 as compared to fiscal 2016.
- Incremental price discounting, net of price increases, in fiscal 2017 decreased net sales by approximately $26 million compared to fiscal 2016.
- Sales volumes within the North American segment increased by approximately $21 million resulting primarily from increased demand within the company's Healthcare business unit, along with growth late in the year in the North America office furniture business.
- The impact of the divestiture of the company's dealership in Philadelphia, Pennsylvania in fiscal 2017 had the effect of reducing net sales by approximately $9 million as compared to fiscal 2016.
- Commodity price increases and incremental discounting drove a decrease in gross margins and operating earnings.
- Decreased employee incentive costs recorded in operating expenses and cost of goods sold increased operating earnings by $10.8 million compared to prior fiscal year. The decrease reflects lower incentive compensation costs that are variable based on the achievement of earnings levels for the fiscal year relative to plan.
- Restructuring charges related to targeted workforce reductions increased operating expenses by $2.9 million.

- Operating expenses within the North American segment were higher than the prior year due to the extra week of operations.
- Company-wide cost savings initiatives resulted in a decrease in operating expenses relative to the prior year period.

ELA Furniture Solutions (EMEA, Latin America, and Asia Pacific)

Fiscal 2018 Compared to Fiscal 2017
Net sales in the ELA segment were $434.5 million in fiscal 2018, an increase of 12.7 percent from fiscal 2017 net sales of $385.5 million. Orders for fiscal 2018 totaled $451.2 million, an increase of 17.2 percent from fiscal 2017. Operating earnings within ELA for fiscal 2018 were $35.5 million, or 8.2 percent of sales as compared to $35.9 million or 9.3 percent of sales in the prior year.

- Increased sales volumes within the ELA segment of approximately $54 million were driven by broad-based growth across all regions, most significantly within the Latin America and EMEA regions.
- Deeper contract price discounting, net of incremental price increases, reduced net sales in fiscal 2018 by roughly $11 million as compared to the prior year.
- Foreign currency translation had a positive impact on net sales of approximately $13 million.
- The impact of an extra week in fiscal 2017 caused net sales and orders in fiscal 2018 to be lower than the prior year by approximately $6.3 million and $8.1 million, respectively.
- Operating earnings were reduced in fiscal 2018 by roughly $11 million due to incremental price discounting and by $5.4 million due to restructuring and other special charges that were driven mainly by the consolidation of manufacturing facilities in China. These decreases were partially offset by increased operating earnings of an estimated $17 million from incremental sales volumes.

Fiscal 2017 Compared to Fiscal 2016
Net sales in the ELA segment were $385.5 million in fiscal 2017, a decrease of $27.1 million from fiscal 2016 net sales of $412.6 million. Orders for fiscal 2017 totaled $384.9 million, a decrease of $32.2 million from fiscal 2016. Operating earnings within ELA for fiscal 2017 were $35.9 million or 9.3 percent of sales as compared to $40.2 million or 9.7 percent of sales in fiscal 2016.

- Fiscal 2016 included the results of the company’s dealership in Australia that was divested at the end of the fourth quarter of fiscal 2016. Accordingly, net sales for the ELA segment decreased by $30.8 million due to the divestiture. The divestiture also decreased orders by $32.8 million year-over-year.
- Increased sales volumes within the ELA segment of approximately $16 million were driven by increases within the Europe, Latin America and Asia regions. The largest increases were due to larger project activity in mainland Europe, Mexico, Brazil, Japan and China.
- Deeper discounting, net of incremental price increases, decreased fiscal 2017 net sales by an estimated $6 million.
- Foreign currency translation decreased net sales by approximately $13.9 million.
- The impact of the extra week increased net sales and orders by $6.3 million and $8.1 million in fiscal 2017.
- The divestiture of the company’s dealership in Australia decreased operating earnings by $1.6 million.
- Operating earnings were also reduced in fiscal 2017 by $1.0 million due to restructuring expenses, related primarily to severance costs.
- Fiscal 2016 included nonrecurring gains related to the sale of a former manufacturing facility in the United Kingdom and the divestiture of the company’s dealership in Australia. Accordingly, the operating earnings for the ELA segment decreased by $6.1 million due to the nonrecurring gains recorded in fiscal 2016.

Specialty

Fiscal 2018 Compared to Fiscal 2017

Net sales within the Specialty reportable segment were $305.4 million in fiscal 2018, an improvement of $7.4 million as compared to $298.0 million in fiscal 2017. Orders for fiscal 2018 totaled $308.4 million, an increase of $14.2 million from $294.2 million in fiscal 2017. Operating earnings within the Specialty reportable segment totaled $8.9 million or 2.9 percent of sales for the year, an increase of $0.8 million from $8.1 million or 2.7 percent of sales in fiscal 2017.

- Net sales increased in fiscal 2018 as compared to the prior fiscal year due primarily to increased sales volumes of approximately $12 million, which was driven primarily by the company's Herman Miller Collection and Geiger businesses.
- The impact of an extra week in fiscal 2017 caused net sales and orders in fiscal 2018 to be lower than the prior year by approximately $4.3 million and $4.8 million, respectively.
- Excluding the favorable year-over-year impact of $8.0 million of restructuring and impairment expenses that were recorded in fiscal 2017, operating earnings decreased in fiscal 2018 as compared to fiscal 2017. Operating earnings were adversely impacted by the company's Nemschoff subsidiary, which experienced a decrease driven by unfavorable product mix, the negative impact on operating earnings from decreased sales volumes and higher warranty costs.

Fiscal 2017 Compared to Fiscal 2016

Net sales within the Specialty reportable segment were $298.0 million in fiscal 2017, an improvement of $3.8 million as compared to $294.2 million in fiscal 2016. Orders for fiscal 2017 totaled $294.2 million, a decrease of $7.0 million from $301.2 million in fiscal 2016. Operating earnings within the Specialty reportable segment totaled $8.1 million or 2.7 percent of sales for the year, a decrease of $6.9 million from $15.0 million or 5.1 percent of sales in fiscal 2016.

- The impact of an extra week in fiscal 2017 increased net sales and orders by approximately $4.3 million and $4.8 million, respectively, as compared to the prior year.
- The decrease in operating earnings in fiscal 2017 relative to fiscal 2016 was driven mainly by impairment and restructuring expenses totaling $8.0 million that were primarily attributable to the impairment of the Nemschoff tradename.

Consumer

Fiscal 2018 Compared to Fiscal 2017

Net sales totaled $356.9 million for the year, an increase of 12.2 percent over the fiscal 2017 amount of $318.1. Orders of $354.5 million increased 11.3 percent over fiscal 2017. Operating earnings for the year were $13.9 million or 3.9 percent of sales as compared to operating earnings of $4.8 million or 1.5 percent of sales for fiscal 2017.

- Incremental sales volumes of approximately $44 million were driven by growth across the DWR studio, e-commerce and contract channels and by a change in shipping terms at Design Within Reach that resulted in approximately $5 million of net sales being accelerated into the first quarter of fiscal 2018.
- The impact of the extra week in fiscal 2017 caused net sales and orders in fiscal 2018 to be lower than the prior year by approximately $4.7 million and $4.0 million, respectively.
- Operating earnings were higher in fiscal 2018 relative to the prior fiscal year due to an estimated $14 million benefit from increased sales volumes and an estimated $2 million benefit from the company's profit enhancement initiatives; partially offset by increased employee incentive costs of $2.6 million, increased compensation and benefits costs of $2.3 million and increased depreciation costs of approximately $2 million.

Fiscal 2017 Compared to Fiscal 2016

Net sales totaled $318.1 million for the year, an increase of 10.2 percent over the fiscal 2016 amount of $288.7 million. Orders of $318.4 million increased 9.2 percent over fiscal 2016. Operating earnings for the year were $4.8 million or 1.5 percent of sales as compared to operating earnings of $8.1 million or 2.8 percent of sales for fiscal 2016.

- Increased sales volumes of approximately $25 million were due to improvements across several Consumer sales channels, including studios, e-commerce, contract and direct-mail catalogs.
- The impact of the extra week increased net sales by $4.7 million in fiscal 2017 as compared to prior year.
- Operating expenses within the Consumer segment were higher than the prior year primarily as a result of increased investments in information technology, marketing and investments in personnel supporting the contract and e-commerce channels.
- Incremental pre-opening costs related to non-comparable studios increased operating expenses relative to the prior year and had a negative impact on operating earnings of approximately $8 million compared to fiscal 2016.

Liquidity and Capital Resources

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

	Fiscal Year Ended		
(In millions)	2018	2017	2016
Cash and cash equivalents, end of period	$203.9	$96.2	$84.9
Marketable securities, end of period	$8.6	$8.6	$7.5
Cash provided by operating activities	$166.5	$202.1	$210.4
Cash used for investing activities	$(62.7)	$(116.3)	$(80.8)
Cash provided by (used for) financing activities	$2.5	$(74.6)	$(106.5)
Pension and post-retirement benefit plan contributions	$(13.4)	$(1.1)	$(1.2)
Capital expenditures	$(70.6)	$(87.3)	$(85.1)
Stock repurchased	$(46.5)	$(23.8)	$(14.1)
Interest-bearing debt, end of period	$275.0	$199.9	$221.9
Available unsecured credit facilities, end of period (1)	$166.8	$391.7	$232.1

(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 2018 totaled $166.5 million compared to $202.1 million generated in the prior year.

Changes in working capital balances in fiscal 2018 resulted in a $32.8 million use of cash compared to a $23.5 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 $12.4 million and an increase in accounts receivable of $33.1 million. The increase in inventory as of the end of fiscal 2018 as compared to fiscal 2017 was due mainly to growth in demand at DWR, as well as a build of inventory in the ELA segment to fulfill demand. 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 $16.0 million.

In addition to changes in working capital, changes in pension contributions also impacted cash generated from operating activities. The company increased pension contributions by $12.3 million in fiscal 2018 as compared to fiscal 2017, which was driven primarily by a contribution of $12.0 million that was made to the international defined benefit pension plan in the first quarter of fiscal 2018.

During fiscal 2017, changes in working capital balances resulted in a $23.5 million use of cash compared to a $6.0 million use of cash in fiscal 2016. The cash outflow related to changes in working capital balances was driven primarily by an increase in inventory of $29.9 million and a decrease in accounts payable of $11.2 million. The increase in inventory as of the end of fiscal 2017 as compared to fiscal 2016 was driven mainly by an increase at the company's DWR subsidiary, due to studio openings and year-end inventory stocking for upcoming promotional events and new product launches. This was partially offset by a decrease in trade receivables of $17.3 million.

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, 1.8 percent, and 2.0 percent at the end of fiscal years 2018, 2017 and 2016, respectively.

Cash Flow — Investing Activities

Capital expenditures totaled $70.6 million, $87.3 million and $85.1 million in fiscal 2018, 2017, and 2016, respectively. The decrease in capital expenditures of $16.7 million from fiscal 2017 to fiscal 2018 was driven primarily by a reduction in expenditures related to manufacturing assets in West Michigan and a reduction in expenditures in connection with Design Within Reach studio build outs.

The increase in capital expenditures of $2.2 million in fiscal 2017 from fiscal 2016 was driven primarily by payments related to the construction of a new facility in the United Kingdom for the purpose of consolidating manufacturing and distribution activities, as well as capital expenditures associated with product development and the opening of new DWR retail studio locations.

Cash proceeds from sale of dealers and properties were $2.1 million, zero and $10.7 million in fiscal 2018, 2017, and 2016 , respectively. 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. During fiscal 2017, the company sold its wholly-owned contract furniture dealership in Pennsylvania in exchange for a $3.0 million note receivable. Cash proceeds received in fiscal 2016 was primarily attributable to the sale of a former manufacturing facility in the United Kingdom for $4.8 million and the divestiture of the company’s remaining 75 percent equity stake in its dealership in Australia for $2.7 million.

Included in the fiscal 2018, 2017 and 2016 investing activities are net cash outflows related to the acquisition of consolidated and non-consolidated entities. The followings amounts represent the primary investments that drove the cash outflows:

(In millions)	2018	2017	2016
Naughtone Holdings Limited	$ —	$ 11.6	$ —
George Nelson Bubble Lamp Product Line	$ —	$ —	$ 3.6

In fiscal 2018, the company received cash proceeds from a company-owned life insurance policy in the amount of $8.1 million. In fiscal 2017, the repayment of loans against the cash surrender value of life insurance policies was $15.3 million, which has been recorded within investing activities. The cash surrender value of the company-owned life insurance policies and the loans were previously recorded net within "Other noncurrent assets" within the Condensed Consolidated Balance Sheets.

Outstanding commitments for future capital purchases at the end of fiscal 2018 were approximately $49.5 million. The company expects capital spending in fiscal 2019 to be between $90 million and $100 million. The capital spending will be allocated primarily to planned investments in product development and retail studio openings.

The company's net marketable securities transactions for fiscal 2018 yielded a zero change in cash flows. This compares to a $1.1 million use of cash and $1.7 million source of cash in fiscal 2017 and fiscal 2016, respectively.

Cash Flow — Financing Activities

Cash provided by financing activities was $2.5 million in fiscal 2018 as compared to cash used for financing activities of $74.6 million in fiscal 2017. 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. By comparison, cash outflows from net payments on the revolving credit facility were $22.0 million during fiscal 2017.

Cash paid for repurchases of common stock was $46.5 million in the current year as compared to $23.8 million in the prior year. Additionally, in fiscal 2018 there was an increase in cash inflows from the issuance of shares related to stock-based compensation plans. The company received $17.0 million related to stock-based compensation plans in fiscal 2018 compared to $11.7 million in fiscal 2017.

Cash paid for repurchases of common stock was $23.8 million in fiscal 2017 as compared to $14.1 million in fiscal 2016. Additionally, in fiscal 2017 there was an increase in cash inflows from the issuance of shares related to stock-based compensation plans. The company received $11.7 million related to stock-based compensation plans in fiscal 2017 compared to $9.2 million in fiscal 2016.

In fiscal 2017, cash used for financing activities was $74.6 million as compared to cash used for financing activities of $106.5 million in fiscal 2016. Cash outflows from net payments on the revolving credit facility were $22 million during fiscal 2017. By comparison, cash outflows from net payments on the revolving credit facility were $68.0 million during fiscal 2016.

Cash outflows for dividend payments were $42.4 million, $39.4 million and $34.9 million fiscal 2018, 2017 and 2016, respectively.

Certain minority shareholders in a subsidiary have the right, at certain times, to require the company to acquire a portion of their ownership interest in those entities at fair value. It is possible that between June 2, 2018 and the first half of fiscal 2020 that the company could be required to acquire this ownership interest. The fair value of this redeemable noncontrolling interest as of June 2, 2018 was $30.5 million and is included within "Redeemable noncontrolling interests" on the Consolidated Balance Sheets.

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 5 to the consolidated financial statements.

(In millions)	June 2, 2018	June 3, 2017
Cash and cash equivalents	$203.9	$96.2
Marketable securities	$8.6	$8.6
Availability under revolving lines of credit	$166.8	$391.7

At the end of fiscal 2018, the company had cash and cash equivalents of $203.9 million, including foreign cash and cash equivalents of $75.0 million. In addition, the company had foreign marketable securities of $8.6 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.

Subsequent to the end of fiscal 2018, on June 7, 2018, the company used cash of approximately $66 million to acquire 33 percent of the outstanding equity of Nine United Denmark A/S, d/b/a HAY ("HAY"), a Copenhagen, Denmark-based, design leader in furniture and ancillary furnishings for residential and contract markets in Europe and Asia. The company also used cash of approximately $5 million to acquire the rights to the HAY brand in North America under a long-term license agreement.

Subsequent to year end, on June 6, 2018, Herman Miller Holdings Limited, a wholly owned subsidiary of the company, announced its intent to lead a group of buyers to acquire the outstanding equity of Maars Holding B.V. ("MAARS"), a Harderwijk, Netherlands-based worldwide leader in the design and manufacturing of interior wall solutions. In the first quarter of fiscal 2019, the company will acquire a 48 percent ownership interest in MAARS for an estimated $6 million in cash.

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 year ended June 2, 2018 had 52 weeks of operations, the fiscal year ended June 3, 2017 had 53 weeks of operations and the fiscal year ended May 28, 2016 had 52 weeks of operations.

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 5 of the Consolidated Financial Statements. Additional information related to operating leases can be found in Note 6 of the Consolidated Financial Statements.

(In millions)	Payments due by fiscal year				
	Total	2019	2020-2021	2022-2023	Thereafter
Long-term debt [1]	$275.0	$—	$ 50.0	$ 225.0	$ —
Estimated interest on debt obligations [1]	71.9	9.6	18.5	13.3	30.5
Operating leases	328.5	45.8	83.3	75.6	123.8
Purchase obligations [2]	93.5	88.1	2.9	0.4	2.1
Pension and other post employment benefit plans funding [3]	0.9	0.4	0.1	0.1	0.3

Stockholder dividends [4]	10.7	10.7	—	—	—
Other [5]	15.3	1.3	2.5	2.3	9.2
Total	$795.8	$155.9	$ 157.3	$ 316.7	$ 165.9

(1) Estimated future interest payments on our outstanding debt obligations are based on interest rates as of June 2, 2018. Actual cash outflows may differ significantly due to changes in underlying timing of principal payments.
(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 2, 2018, the total projected benefit obligation for our domestic and international employee pension benefit plans was $106.9 million.
(4) Represents the dividend payable as of June 2, 2018. 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 12 of the Consolidated Financial Statements.

Critical Accounting Policies and Estimates

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

As described in the “Executive Overview,” the majority of our products and services are sold through one of six channels: independent and owned contract furniture dealers, direct to end customers, DWR retail studios, e-commerce, DWR direct-mail catalogs and independent retailers. We recognize revenue on sales to independent dealers, licensees and retailers once products are shipped and title passes to the buyer. When we sell product directly to the end customer or through owned dealers or retail studios, we recognize revenue once the product and services are shipped, title and risk of loss have transferred to the customer and installation is substantially complete, if applicable.

Amounts recorded as net sales generally include any freight charged to customers, with the related freight expenses recognized within cost of sales. Items such as discounts off list price, rebates and other price related incentives are recorded as reductions to net sales. We record accruals for rebates and other marketing programs, which require us to make estimates about future customer buying patterns and market conditions. Customer sales that reach (or fail to reach) certain levels can affect the amount of such estimates and actual results could differ from our estimates.

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 $3.1 million and $3.3 million at June 2, 2018 and June 3, 2017, respectively. As a percentage of gross accounts receivable, these allowances totaled 1.4 percent and 1.8 percent for fiscal 2018 and fiscal 2017, respectively. The year-over-year decrease in the allowance is primarily due to fewer 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 2, 2018 and June 3, 2017, was $382.2 million and $382.6 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 2018, as of March 31, 2018, performing a quantitative impairment test for all goodwill reporting units and other indefinite-lived intangible assets. 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, noting low risk of impairment. Also, due to the level that the reporting unit fair values exceeded the carrying amounts and the results of our sensitivity analysis, the company did not deem any reporting units to be at risk of impairment.

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.

Historically, the company has performed both qualitative and quantitative assessments to determine whether an indefinite-lived intangible asset is impaired. In fiscal 2018, 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, noting low risk of impairment. Also, due to the level that the indefinite-lived intangible assets exceeded the carrying amounts and the results of our sensitivity analysis, the company did not deem any of these assets to be at risk of impairment.

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 2018 or fiscal 2016 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 10 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 foreign tax credits available in certain jurisdictions to reduce future tax due. Future tax benefits for NOL carryforwards and foreign 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 will enable us to utilize the NOL carryforwards and/or foreign tax credits. When information becomes available that raises doubts about the realization of a deferred income tax asset, a valuation allowance is established.

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 2, 2018, are as follows:

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

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. As of June 2, 2018, and June 3, 2017, the net actuarial loss associated with the employee pension and post-retirement benefit plans totaled approximately $40.0 million and $50.6 million, respectively.

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 2, 2018 pension funded status and fiscal 2018 expense are affected by year end fiscal 2018 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.

The effect of a 1 percent increase/(decrease) in discount rates and expected return on assets on the projected fiscal 2019 expense and the pension obligation as at June 2, 2018 is shown below:

(In millions)

Assumption	2019 Expense		June 2, 2018 Obligation	
	U.S.	International	U.S.	International
Discount rate	—	$(1.4) / 1.7	$(0.3) / 0.3	$(18.4) / 24.6
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 2, 2018, the deferred net actuarial loss (i.e., the portion of the total net actuarial loss not subject to amortization) was $2.4 million.

Refer to Note 7 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 2018, we utilized an expected volatility of 26 percent. Certain options related to the Herman Miller Consumer Holdings (HMCH) Stock Option Plan are classified as a liability within the Consolidated Balance Sheets. As of June 2, 2018, an expected volatility of 35 percent was used in the year end liability valuation.

- 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 4.6 years in calculating the fair values of the majority of stock options issued during fiscal 2018, except for the HMCH Stock Option Plan, where we utilized an average expected term of 1.1 years.

Refer to Note 9 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 12 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

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 $10 million during fiscal 2018 compared to the prior year. The impact from changes in commodity prices increased the company's costs by approximately $9 million during fiscal 2017 as compared to fiscal 2016.

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 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.

As of June 3, 2017, 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. One forward contract was placed to offset a 35.0 million Hong Kong dollar-denominated net asset exposure. Two forward contracts were placed to offset an 11.6 million euro-denominated net asset exposure. Three forward contracts were placed to offset a 12.0 million U.S. dollar-denominated net liability exposure. One forward contract was placed to offset an 8.5 million South

African rand-denominated net asset exposure. Five forward contracts were placed to offset a 13.3 million U.S.dollar-denominated net liability exposure. One forward contract was placed to offset a 5.8 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 $0.4 million in fiscal 2018 in contrast to net loss of $0.7 million and $0.7 million in fiscal 2017 and 2016 included in net earnings, respectively. 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 increased the accumulated comprehensive loss component of total stockholders' equity by $2.7 million, $7.2 million and $8.8 million as of the end of as of the end of fiscal 2018, 2017 and 2016, 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 combined fair market value and net asset amount of the effective interest rate swap instruments was $9.9 million at June 2, 2018 compared to $2.1 million at June 3, 2017. All cash flows related to the company's interest rate swap instruments are denominated in U.S. dollars. For further information, refer to Notes 5 and 11 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)	2019	2020	2021	2022	2023	Thereafter	Total[1]
Long-Term Debt - Fixed rate:							
Interest rate = 6.00%	$ —	$ —	$50.0	$—	$ —	$ —	$50.0
Interest rate = 1.949%[2]	$ —	$ —	$—	$150.0	$ —	$ —	$150.0
Interest rate = 2.387%[2]	$ —	$ —	$—	$75.0	$ —	$ —	$75.0

(1) Amount does not include the recorded fair value of the swap instrument, which totaled $9.9 million and $2.1 million at the end of fiscal 2018 and 2017, 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 2, 2018	June 3, 2017	May 28, 2016
Net sales	$2,381.2	$2,278.2	$2,264.9
Cost of sales	1,508.2	1,414.0	1,390.7
Gross margin	873.0	864.2	874.2
Operating expenses:			
Selling, general and administrative	616.7	587.8	585.6
Restructuring and impairment expenses	5.7	12.5	—
Design and research	73.1	73.1	77.1
Total operating expenses	695.5	673.4	662.7
Operating earnings	177.5	190.8	211.5
Other expenses (income):			
Interest expense	13.5	15.2	15.4
Interest and other investment income	(4.4)	(2.2)	(0.8)
Other, net	0.3	0.2	0.3
Net other expenses	9.4	13.2	14.9
Earnings before income taxes	168.1	177.6	196.6
Income tax expense	42.4	55.1	59.5
Equity earnings from nonconsolidated affiliates, net of tax	3.0	1.6	0.4
Net earnings	128.7	124.1	137.5
Net earnings attributable to noncontrolling interests	0.6	0.2	0.8
Net earnings attributable to Herman Miller, Inc.	$128.1	$123.9	$136.7
Earnings per share — basic	$2.15	$2.07	$2.28
Earnings per share — diluted	$2.12	$2.05	$2.26
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	$2.7	$(7.2)	$(8.8)
Pension and post-retirement liability adjustments	10.4	(12.7)	0.5
Unrealized gains on interest rate swap agreement	7.8	2.1	—
Unrealized holding gain on available for sale securities	—	0.1	—
Total other comprehensive income (loss)	20.9	(17.7)	(8.3)
Comprehensive income	149.6	106.4	129.2
Comprehensive income attributable to noncontrolling interests	0.6	0.2	0.8
Comprehensive income attributable to Herman Miller, Inc.	$149.0	$106.2	$128.4

Herman Miller, Inc.
Consolidated Balance Sheets

(In millions, except share and per share data)	June 2, 2018	June 3, 2017
Assets		
Current Assets:		
Cash and cash equivalents	$203.9	$96.2
Marketable securities	8.6	8.6
Accounts and notes receivable, less allowances of $3.1 in 2018 and $3.3 in 2017	219.3	186.6
Inventories, net	162.4	152.4
Prepaid taxes	9.9	17.7
Other	41.3	30.4
Total Current Assets	645.4	491.9
Property and Equipment:		
Land and improvements	24.4	24.0
Buildings and improvements	238.6	229.0
Machinery and equipment	700.0	662.4
Construction in progress	57.8	53.3
Gross Property and Equipment	1,020.8	968.7
Less: Accumulated depreciation	(689.4)	(654.1)
Net Property and Equipment	331.4	314.6
Goodwill	304.1	304.5
Indefinite-lived intangibles	78.1	78.1
Other amortizable intangibles, net	41.3	45.4
Other assets	79.2	71.8
Total Assets	$1,479.5	$1,306.3
Liabilities, Redeemable Noncontrolling Interests and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$171.4	$148.4
Accrued compensation and benefits	86.3	79.7
Accrued warranty	51.5	47.7
Unearned revenue	30.4	33.2
Other accrued liabilities	74.2	76.7
Total Current Liabilities	413.8	385.7
Long-term debt, less current portion	275.0	199.9
Pension and post-retirement benefits	15.6	38.5
Other liabilities	79.8	69.9
Total Liabilities	784.2	694.0
Redeemable noncontrolling interests	30.5	24.6
Stockholders' Equity:		
Preferred stock, no par value (10,000,000 shares authorized, none issued)	—	—
Common stock, $0.20 par value (240,000,000 shares authorized, 59,230,974 and 59,715,824 shares issued and outstanding in 2018 and 2017, respectively)	11.7	11.9
Additional paid-in capital	116.6	139.3
Retained earnings	598.3	519.5

Accumulated other comprehensive loss	(61.3)	(82.2)
Key executive deferred compensation	(0.7)	(1.0)
Herman Miller, Inc. Stockholders' Equity	664.6	587.5
Noncontrolling interests	0.2	0.2
Total Stockholders' Equity	664.8	587.7
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders' Equity	$1,479.5	$1,306.3

Herman Miller, Inc.
Consolidated Statements of Stockholders' Equity

(In millions)	Fiscal Years Ended June 2, 2018	June 3, 2017	May 28, 2016
Preferred Stock			
Balance at beginning of year and end of year	$—	$—	$—
Common Stock			
Balance at beginning of year	$11.9	$12.0	$11.9
Repurchase and retirement of common stock	(0.3)	(0.1)	—
Restricted stock units released	0.1	—	0.1
Balance at end of year	$11.7	$11.9	$12.0
Additional Paid-in Capital			
Balance at beginning of year	$139.3	$142.7	$135.1
Cumulative effect of accounting change	(0.3)	—	—
Exercise of stock options	14.6	9.4	6.6
Repurchase and retirement of common stock	(46.2)	(23.7)	(14.1)
Employee stock purchase plan issuances	2.0	1.9	1.7
Stock-based compensation expense	7.0	9.1	11.9
Excess tax benefit for stock-based compensation	—	(0.6)	0.8
Restricted stock units released	0.2	0.3	0.2
Deferred compensation plan	(0.4)	(0.1)	(0.1)
Directors' fees	0.4	0.3	0.6
Balance at end of year	$116.6	$139.3	$142.7
Retained Earnings			
Balance at beginning of year	$519.5	$435.3	$330.2
Cumulative effect of accounting change	0.1	—	—
Net income attributable to Herman Miller, Inc.	128.1	123.9	136.7
Dividends declared on common stock (per share - 2018: $0.72; 2017: $0.68; 2016: $0.59)	(43.2)	(40.9)	(35.6)
Noncontrolling interests redemption value adjustment	(6.2)	1.2	4.0
Balance at end year	$598.3	$519.5	$435.3
Accumulated Other Comprehensive Loss			
Balance at beginning of year	$(82.2)	$(64.5)	$(56.2)
Other comprehensive income (loss)	20.9	(17.7)	(8.3)
Balance at end of year	$(61.3)	$(82.2)	$(64.5)
Key Executive Deferred Compensation			