

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

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
(State or other jurisdiction of incorporation or organization)

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

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

49464-0302
(Zip Code)

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

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

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

Common Stock, \$.20 Par Value
(Title of Class)

Name of exchange on which registered
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 No

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark 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.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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

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

Yes No

The aggregate market value of the voting stock held by "nonaffiliates" of the registrant (for this purpose only, the affiliates of the registrant have been assumed to be the executive officers and directors of the registrant and their associates) as of December 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® and other Nemschoff® products), the Thrive portfolio of ergonomic solutions and the textiles of Maharam Fabric Corporation (Maharam). The Live OSSM 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®, Say®, 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	

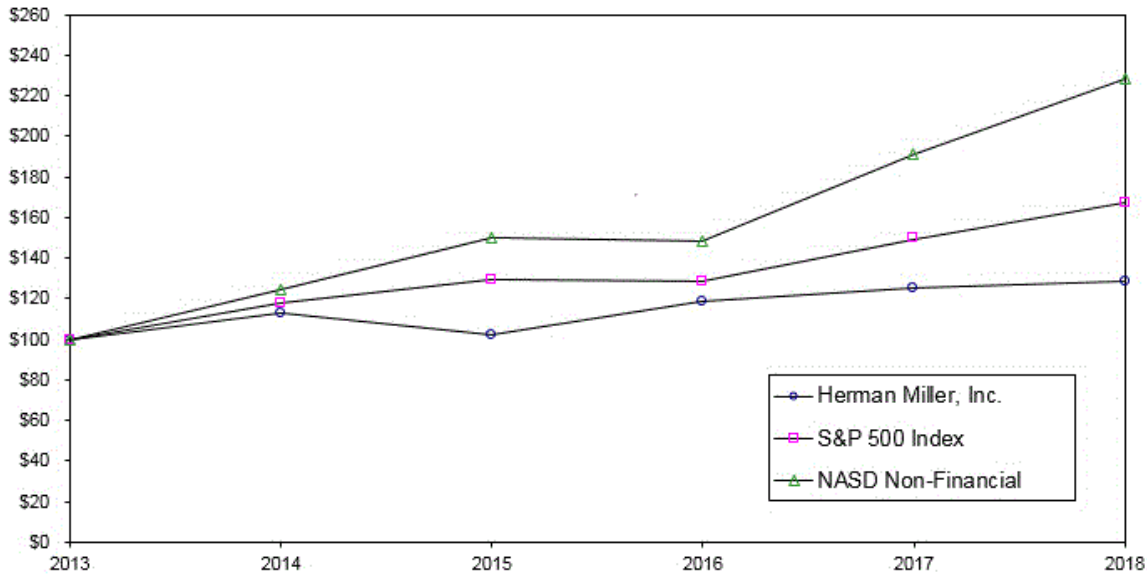
(1) Amounts are as of the end of the period indicated

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 Terms	—	—	—	(5.0)	(5.0)	—	—	—	—	—
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

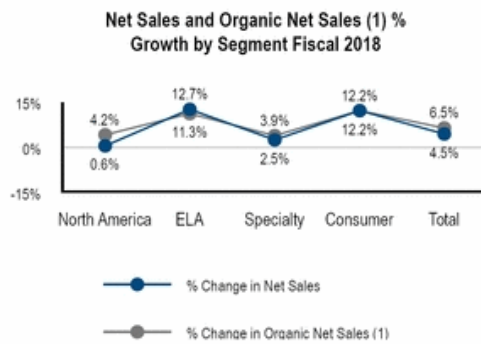
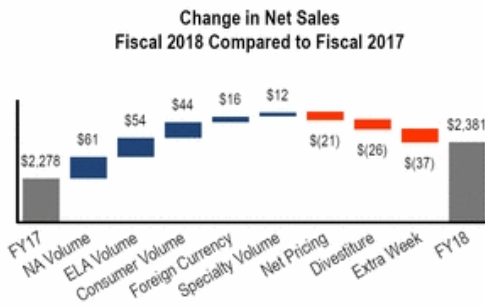
The following is a comparison of our annual results of operations and year-over-year percentage changes for the periods indicated:

(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.

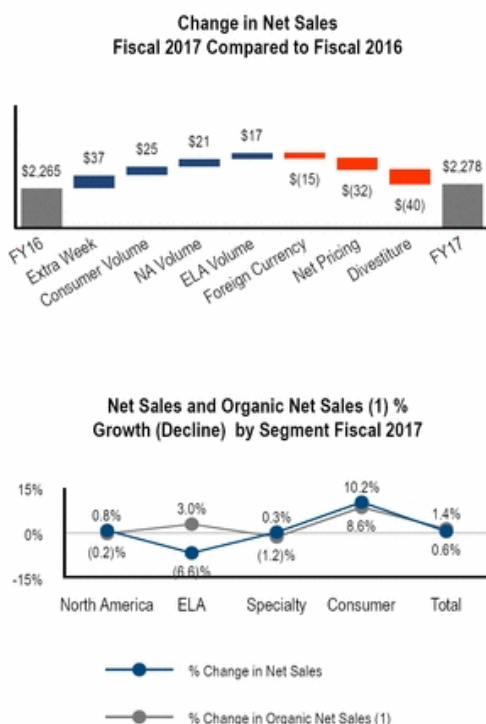
The company's backlog of unfilled orders at the end of fiscal 2018 totaled \$344.5 million, a 6.8 percent increase from fiscal 2017 ending backlog of \$322.6 million. In fiscal 2018, the company completed the sale of its dealership in Vancouver. This dealer divestiture resulted in a reduction to the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

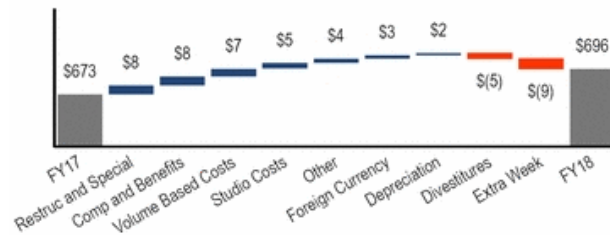
- Incremental price discounting, net of price increases, reduced the company's consolidated gross margin by approximately 100 basis points relative to the same period of last fiscal year.
- Material cost performance was impacted favorably as a result of value engineering, insourcing and supplier cost 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

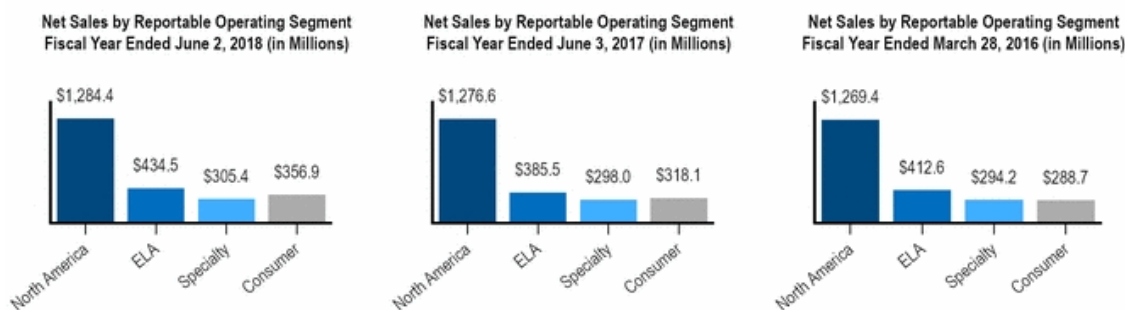
The business is comprised of various operating segments as defined by generally accepted accounting principles in the United States. These operating segments are determined on the basis of how the company internally reports and evaluates financial information used to make operating decisions.

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 increased 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.

(In millions)	Fiscal Year Ended		
	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:

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			
Balance at beginning of year	\$ (1.0)	\$ (1.1)	\$ (1.2)
Deferred compensation plan	0.3	0.1	0.1
Balance at end of year	\$ (0.7)	\$ (1.0)	\$ (1.1)
Herman Miller, Inc. Stockholders' Equity	\$ 664.6	\$ 587.5	\$ 524.4
Noncontrolling Interests			
Balance at beginning of year	\$ 0.2	\$ 0.3	\$ 0.5
Net income attributable to noncontrolling interests	—	—	0.3
Deconsolidation of entity with noncontrolling interests	—	—	(0.5)
Stock-based compensation expense	—	(0.1)	—
Balance at end of year	\$ 0.2	\$ 0.2	\$ 0.3
Total Stockholders' Equity	\$ 664.8	\$ 587.7	\$ 524.7

Herman Miller, Inc.
Consolidated Statements of Cash Flows

(In millions)	Fiscal Years Ended		
	June 2, 2018	June 3, 2017	May 28, 2016
Cash Flows from Operating Activities:			
Net earnings	\$ 128.7	\$ 124.1	\$ 137.5
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation expense	60.9	52.9	47.0
Amortization expense	6.0	6.0	6.0
Provision for losses on accounts receivable and notes receivable	0.9	—	2.2
Earnings from nonconsolidated affiliates net of dividends received	(0.2)	(1.5)	—
Gain on sales of property and dealers	(0.5)	—	(5.8)
Deferred taxes	(0.8)	14.8	10.4
Pension contributions	(13.4)	(1.1)	(1.2)
Pension and post-retirement expenses	2.9	0.5	1.4
Restructuring and impairment expenses	5.7	12.5	—
Stock-based compensation	7.7	8.7	11.9
Excess tax benefits from stock-based compensation	—	(0.5)	(1.4)
Increase in long-term liabilities	3.4	6.2	6.7
Changes in current assets and liabilities:			
(Increase) decrease in accounts receivable	(33.1)	17.3	(30.5)
Increase in inventories	(12.4)	(29.9)	(6.0)
Increase in prepaid expenses and other	(3.0)	(0.5)	(11.7)
Increase (decrease) in accounts payable	16.0	(11.2)	8.7
(Decrease) increase in accrued liabilities	(0.3)	0.8	33.5
Other	(2.0)	3.0	1.7
Net Cash Provided by Operating Activities	166.5	202.1	210.4
Cash Flows from Investing Activities:			
Net (advances) receipts from notes receivable	(1.1)	2.4	0.2
Marketable securities purchases	(1.0)	(2.0)	(7.8)
Marketable securities sales	1.0	0.9	6.1
Capital expenditures	(70.6)	(87.3)	(85.1)
Proceeds from sales of property and dealers	2.1	—	10.7
Payments of loans on cash surrender value of life insurance	—	(15.3)	—
Proceeds from life insurance policy	8.1	—	—
Acquisitions, net of cash received	—	—	(3.6)
Equity investment in non-controlled entities	—	(13.1)	—
Other, net	(1.2)	(1.9)	(1.3)
Net Cash Used for Investing Activities	(62.7)	(116.3)	(80.8)
Cash Flows from Financing Activities:			
Repayments of long-term debt	(150.0)	—	—
Proceeds from credit facility	340.4	794.4	800.8
Repayments of credit facility	(115.4)	(816.4)	(868.8)
Dividends paid	(42.4)	(39.4)	(34.9)
Common stock issued	17.0	11.7	9.2
Common stock repurchased and retired	(46.5)	(23.8)	(14.1)
Excess tax benefits from stock-based compensation	—	0.5	1.4
Payment of contingent consideration obligation	(0.1)	(2.0)	—
Purchase of noncontrolling interests	(1.0)	(1.5)	—
Other, net	0.5	1.9	(0.1)
Net Cash Provided by (Used for) Financing Activities	2.5	(74.6)	(106.5)
Effect of exchange rate changes on cash and cash equivalents	1.4	0.1	(1.9)
Net Increase In Cash and Cash Equivalents	107.7	11.3	21.2
Cash and cash equivalents, Beginning of Year	96.2	84.9	63.7
Cash and Cash Equivalents, End of Year	\$ 203.9	\$ 96.2	\$ 84.9

Other Cash Flow Information

Interest paid	\$	16.4	\$	13.4	\$	13.4
Income taxes paid, net of cash received	\$	34.2	\$	35.6	\$	57.6

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1. Significant Accounting and Reporting Policies

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

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Herman Miller, Inc. and its majority-owned domestic and foreign subsidiaries. The consolidated entities are collectively referred to as "the company." All intercompany accounts and transactions have been eliminated in the Consolidated Financial Statements. Nonconsolidated affiliates (20-50 percent owned companies) are accounted for using the equity method.

Description of Business

The company researches, designs, manufactures, sells, and distributes interior furnishings, for use in various environments including office, healthcare, educational, and residential settings, and provides related services that support companies all over the world. The company's products are sold primarily through independent contract office furniture dealers as well as the following channels: owned contract office furniture dealers, direct customer sales, independent retailers, owned retail studios, direct-mail catalogs and the company's e-commerce platforms.

Fiscal Year

The company's fiscal year ends on the Saturday closest to May 31. The fiscal year ended June 2, 2018 contained 52 weeks, while the fiscal year ended June 3, 2017 contained 53 weeks. The fiscal year ended May 28, 2016 contained 52 weeks.

Foreign Currency Translation

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

The financial statement impact of gains and losses resulting from remeasuring foreign currency transactions into the appropriate functional currency resulted in a net gain \$0.4 million for fiscal year ended June 2, 2018, and a net loss of \$0.7 million and \$0.7 million for the fiscal years ended June 3, 2017 and May 28, 2016, respectively. These amounts are included in "Other, net" in the Consolidated Statements of Comprehensive Income.

Cash Equivalents

The company holds cash equivalents as part of its cash management function. Cash equivalents include money market funds and time deposit investments with original maturities of less than three months. The carrying value of cash equivalents, which approximates fair value, totaled \$148.8 million and \$33.6 million as of June 2, 2018 and June 3, 2017, respectively. All cash equivalents are high-credit quality financial instruments, and the amount of credit exposure to any one financial institution or instrument is limited.

Marketable Securities

The company maintains a portfolio of marketable securities primarily comprised of mutual funds. These investments are held by the company's wholly owned insurance captive and are considered "available-for-sale" securities. Accordingly, they have been recorded at fair value based on quoted market prices, with the resulting net unrealized holding gains or losses reflected net of tax as a component of "Accumulated other comprehensive loss" in the Consolidated Balance Sheets.

All marketable security transactions are recognized on the trade date. Realized gains and losses on disposal of available-for-sale investments are included in "Interest and other investment income" in the Consolidated Statements of Comprehensive Income. See Note 11 of the Consolidated Financial Statements for additional disclosures of marketable securities.

Accounts Receivable Allowances

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

Concentrations of Credit Risk

The company's trade receivables are primarily due from independent dealers who, in turn, carry receivables from their customers. The company monitors and manages the credit risk associated with individual dealers and direct customers where applicable. Dealers are responsible for assessing and assuming credit risk of their customers and may require their customers to provide deposits, letters of credit or other credit

enhancement measures. Some sales contracts are structured such that the customer payment or obligation is direct to the company. In those cases, the company may assume the credit risk. Whether from dealers or customers, the company's trade credit exposures are not concentrated with any particular entity.

Inventories

Inventories are valued at the lower of cost or market and include material, labor and overhead. Inventory cost is determined using the last-in, first-out (LIFO) method at manufacturing facilities in Michigan, whereas inventories of the company's other locations are valued using the first-in, first-out (FIFO) method. The company establishes reserves for excess and obsolete inventory based on prevailing circumstances and judgment for consideration of current events, such as economic conditions, that may affect inventory. The reserve required to record inventory at lower of cost or net realizable value may be adjusted in response to changing conditions. Further information on the company's recorded inventory balances can be found in Note 3 of the Consolidated Financial Statements.

Goodwill and Indefinite-lived Intangible Assets

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

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

Intangible assets with indefinite useful lives are not subject to amortization and are evaluated annually for impairment, or more frequently, when events or changes in circumstances indicate that the fair value of an intangible asset may not be recoverable. The company utilizes the relief from royalty methodology to test for impairment. The primary assumptions for the relief from royalty method include revenue forecasts, earnings forecasts, royalty rates and discount rates. The company measures and records an impairment loss for the excess of the carrying value of the asset over its fair value. The company's indefinite-lived intangible assets consist of certain trade names valued at approximately \$78.1 million as of the end of fiscal 2018 and fiscal 2017. These assets have indefinite useful lives.

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

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

(In millions)	Goodwill	Indefinite-lived Intangible Assets	Total Goodwill and Indefinite-lived Intangible Assets
Balance, May 28, 2016	\$ 305.3	\$ 85.2	\$ 390.5
Foreign currency translation adjustments	(0.7)	—	(0.7)
Sale of owned dealer	(0.1)	—	(0.1)
Impairment charges	—	(7.1)	(7.1)
Balance, June 03, 2017	\$ 304.5	\$ 78.1	\$ 382.6
Foreign currency translation adjustments	(0.1)	—	(0.1)
Sale of owned dealer	(0.3)	—	(0.3)
Balance, June 02, 2018	\$ 304.1	\$ 78.1	\$ 382.2

Property, Equipment and Depreciation

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

As of the end of fiscal 2018, outstanding commitments for future capital purchases approximated \$49.5 million.

Other Long-Lived Assets

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

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

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

(In millions)	June 3, 2017			
	Patent and Trademarks	Customer Relationships	Other	Total
Gross carrying value	\$ 20.5	\$ 55.3	\$ 7.5	\$ 83.3
Accumulated amortization	13.3	19.7	4.9	37.9
Net	\$ 7.2	\$ 35.6	\$ 2.6	\$ 45.4

The company amortizes these assets over their remaining useful lives using the straight-line method over periods ranging from 5 years to 20 years, or on an accelerated basis, to reflect the expected realization of the economic benefits. It is estimated that the weighted-average remaining useful life of patents and trademarks is approximately 6 years and the weighted-average remaining useful life of customer relationships is 8 years.

Estimated amortization expense on existing amortizable intangible assets as of June 2, 2018, for each of the succeeding five fiscal years, is as follows:

(In millions)	
2019	\$ 5.9
2020	\$ 5.6
2021	\$ 5.6
2022	\$ 5.6
2023	\$ 5.6

Self-Insurance

The company is partially self-insured for general liability, workers' compensation and certain employee health and dental benefits under insurance arrangements that provide for third-party coverage of claims exceeding the company's loss retention levels. The company's health benefit and auto liability retention levels do not include an aggregate stop loss policy. The company's retention levels designated within significant insurance arrangements as of June 2, 2018, are as follows:

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

The company accrues for its self-insurance arrangements, as well as reserves for health, prescription drugs, and dental benefit exposures based on actuarially-determined estimates, which are recorded in "Other liabilities" in the Consolidated Balance Sheets. The value of the liability as of June 2, 2018 and June 3, 2017 was \$11.2 million and \$10.5 million, respectively. The actuarial valuations are based on historical information along with certain assumptions about future events. Changes in assumptions for such matters as legal actions, medical costs and changes in actual experience could cause these estimates to change. The general and workers' compensation liabilities are managed through the company's wholly-owned insurance captive.

Redeemable Noncontrolling Interests

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

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

Changes in the estimated redemption amounts of the noncontrolling interests, subject to put options, are reflected at each reporting period with a corresponding adjustment to Retained earnings. Future reductions in the carrying amounts are subject to a "floor" amount that is equal to the fair value of the redeemable noncontrolling interests at the time they were originally recorded. See Note 15 - Redeemable Noncontrolling Interests for additional information.

Research, Development and Other Related Costs

Research, development, pre-production and start-up costs are expensed as incurred. Research and development ("R&D") costs consist of expenditures incurred during the course of planned research and investigation aimed at discovery of new knowledge useful in developing new products or processes. R&D costs also include the significant enhancement of existing products or production processes and the implementation of such through design, testing of product alternatives or construction of prototypes. R&D costs included in "Design and research" expense in the accompanying Consolidated Statements of Comprehensive Income are \$57.1 million, \$58.6 million and \$62.4 million, in fiscal 2018, 2017, and 2016, respectively.

Royalty payments made to designers of the company's products as the products are sold are a variable cost based on product sales. These expenses totaled \$16.0 million, \$14.5 million and \$14.7 million in fiscal years 2018, 2017 and 2016 respectively. They are included in Design and research expense in the accompanying Consolidated Statements of Comprehensive Income.

Customer Payments and Incentives

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

Revenue Recognition

The company recognizes revenue on sales through its network of independent contract furniture dealers and independent retailers once the related product is shipped and title passes. In situations where products are sold through subsidiary dealers or directly to the end customer, revenue is recognized once the related product is shipped to the end customer and installation, if applicable, is substantially complete. Offers such as rebates and discounts are recorded as reductions to net sales. Unearned revenue occurs during the normal course of business due to advance payments from customers for future delivery of products and services.

In addition to independent retailers, the company also sells product through owned retail channels, including e-commerce and Consumer retail studios. Revenue is recognized on these transactions upon shipment and transfer to the customer of both title and risk of loss. These sales may include provisions involving a right of return. The company reduces revenue for an estimate of potential future product returns related to current

period product revenue. When developing the allowance for sales returns, the company considers historical returns and current economic trends. Revenue is recorded net of sales taxes as the company is a pass-through entity for collecting and remitting sales tax.

Shipping and Handling Expenses

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

Cost of Sales

We include material, labor and overhead in cost of sales. Included within these categories are items such as freight charges, warehousing costs, internal transfer costs and other costs of our distribution network.

Selling, General, and Administrative

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

Income Taxes

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

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

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

Stock-Based Compensation

The company has several stock-based compensation plans, which are described in Note 9 of the Consolidated Financial Statements. Our policy is to expense stock-based compensation using the fair-value based method of accounting for all awards granted.

Earnings per Share

Basic earnings per share (EPS) excludes the dilutive effect of common shares that could potentially be issued, due to the exercise of stock options or the vesting of restricted shares, and is computed by dividing net earnings by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net earnings by the sum of the weighted-average number of shares outstanding, plus all dilutive shares that could potentially be issued. Refer to Note 8 of the Consolidated Financial Statements for further information regarding the computation of EPS.

Comprehensive Income

Comprehensive income consists of Net earnings, Foreign currency translation adjustments, Unrealized holding gain on available-for-sale securities, Unrealized gains on interest rate swap agreement and Pension and post-retirement liability adjustments. Refer to Note 14 of the Consolidated Financial Statements for further information regarding comprehensive income.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value

The company classifies and discloses its fair value measurements in one of the following three categories:

- Level 1 — Financial instruments with unadjusted, quoted prices listed on active market exchanges.
- Level 2 — Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. Financial instrument values are determined using prices for recently traded financial instruments with similar underlying terms and direct or indirect observational inputs, such as interest rates and yield curves at commonly quoted intervals.
- Level 3 — Financial instruments not actively traded on a market exchange and there is little, if any, market activity. Values are determined using significant unobservable inputs or valuation techniques.

See Note 11 of the Consolidated Financial Statements for the required fair value disclosures.

Derivatives and Hedging

The company calculates the fair value of financial instruments using quoted market prices whenever available. The company utilizes derivatives to manage exposures to foreign currency exchange rates and interest rate risk. The fair values of all derivatives are recognized as assets or liabilities at the balance sheet date. Changes in the fair value of these instruments are reported within Other expenses (income): Other, net in the Consolidated Statements of Comprehensive Income, or Accumulated Other Comprehensive Loss within the Consolidated Balance Sheets, depending on the use of the derivative and whether it qualifies for hedge accounting treatment.

Gains and losses on derivatives that are designated and qualify as cash flow hedging instruments are recorded in Accumulated Other Comprehensive Loss, to the extent the hedges are effective, until the underlying transactions are recognized in the Consolidated Statements of Comprehensive Income. Derivatives not designated as hedging instruments are marked-to-market at the end of each period with the results included in Consolidated Statements of Comprehensive Income.

New Accounting Standards

Recently Adopted Accounting Standards

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

Recently Issued Accounting Standards Not Yet Adopted

Standard	Description	Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Revenue from Contracts with Customers	The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries and jurisdictions and also requires enhanced disclosures. The standard allows for two adoption methods, a full retrospective or modified retrospective approach.	June 3, 2018	The company has completed its review of the impact of the new standard and has identified changes in the determination of performance obligations around product and service revenue. For commercial contracts in which the company sells directly to end customers, in most cases, the company currently delays revenue recognition until the products are shipped and installed and records third-party installation and certain other fees net. However, under the new standard, in most cases, the company will recognize product revenue when title and risk of loss have transferred and will recognize service revenue as the services are performed. Additionally, the company will record certain product pricing elements related to its direct customer sales within Cost of Sales rather than net within revenue as is current practice. The company has determined that these elements relate to the product performance obligation which the company is considered to control under the new standard. The company has implemented changes to its business processes, systems and controls to support recognition and disclosure under the new standard. The company is adopting the standard in fiscal 2019 using the modified-retrospective approach and as a result expects to record an accumulative catch up adjustment of approximately \$2 million increase to fiscal 2019 beginning retained earnings.
Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	This standard changes the rules related to the income statement presentation of the components of net periodic benefit cost for defined benefit pension and other postretirement benefit plans. Under the new guidance, entities must present the service cost component of net periodic benefit cost in the same income statement line items as other employee compensation costs related to services rendered during the period. Other components of net periodic benefit cost will be presented separately from the line items that include the service cost. Early adoption is permitted.	June 3, 2018	The standard is expected to impact the classification of certain costs within the company's Consolidated Statements of Comprehensive Income. No impact to the company's Consolidated Balance Sheets or Consolidated Statements of Cash Flow are expected as a result of the standard.
Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	This update allows for the reclassification to retained earnings of the tax effects stranded in Accumulated Other Comprehensive Income resulting from The Tax Cuts and Jobs Act. Early adoption is permitted.	June 2, 2019	The company is still evaluating these amendments and has not determined its accounting policy and whether or not an election will be made to reclassify the stranded effects.
Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities	This update amends the hedge accounting recognition and presentation with the objectives of improving the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities and simplifying the application of hedge accounting. The update expands the strategies eligible for hedge accounting, relaxes the timing requirements of hedge documentation and effectiveness assessments and permits the use of qualitative assessments on an ongoing basis to assess hedge effectiveness. The new guidance also requires new disclosures and presentation.	June 2, 2019	The company is currently evaluating the impact of adopting this guidance.

Recently Issued Accounting Standards Not Yet Adopted (continued)

Standard	Description	Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Leases	Under the updated standard a lessee's rights and obligations under most leases, including existing and new arrangements, would be recognized as assets and liabilities, respectively, on the balance sheet. The standard must be adopted under a modified retrospective approach and early adoption is permitted.	June 2, 2019	The standard is expected to have a significant impact on our Consolidated Financial Statements, however the company is currently evaluating the impact.

2. Acquisitions and Divestitures

Contract Furniture Dealerships

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

On January 1, 2017, the company completed the sale of a wholly-owned contract furniture dealership in Pennsylvania in exchange for a \$3.0 million note receivable. A pre-tax gain of \$0.7 million was recognized as a result of the sale within the caption Selling, general and administrative within the Consolidated Statements of Comprehensive Income. The note receivable was deemed to be a variable interest in a variable interest entity. The carrying value of the note was \$2.5 million as of June 2, 2018 and represents the company's maximum exposure to loss. The company is not deemed to be the primary beneficiary of the variable interest entity as the buyers of the dealership control the activities that most significantly impact the entity's economic performance, including sales, marketing and operations.

Naughtone Holdings Limited

On June 3, 2016, the company acquired a 50 percent noncontrolling equity interest in Naughtone, a leader in soft seating products, stools, occasional tables and meeting tables, for \$12.4 million in cash consideration. In the second quarter of fiscal 2017, the company paid additional purchase consideration of approximately \$0.6 million as part of the final net equity adjustment.

George Nelson Bubble Lamp Product Line Acquisition

On September 17, 2015, the company acquired certain assets associated with the George Nelson Bubble Lamp product line, which together constituted the acquisition of a business. Consideration transferred to acquire the assets consisted of \$3.6 million in cash transferred during the second quarter of fiscal 2016 and an additional component of performance-based contingent consideration with a fair value of \$2.7 million as of the acquisition date.

The assets acquired included an exclusive manufacturing agreement and customer relationships with fair values of \$2.5 million and \$0.6 million, respectively, each having a useful life of 10 years. The excess of the purchase consideration over the fair value of the net assets acquired was \$3.2 million and recognized as goodwill within the Consumer reportable segment. The total amount of this goodwill is deductible for tax purposes.

3. Inventories

(In millions)	June 2, 2018	June 3, 2017
Finished goods and work in process	\$ 124.2	\$ 119.0
Raw materials	38.2	33.4
Total	\$ 162.4	\$ 152.4

Inventories valued using LIFO amounted to \$25.5 million and \$25.2 million as of June 2, 2018 and June 3, 2017, respectively. If all inventories had been valued using the first-in first-out method, inventories would have been \$175.3 million and \$164.6 million at June 2, 2018 and June 3, 2017, respectively.

4. Investments in Nonconsolidated Affiliates

The company has certain investments in entities that are accounted for using the equity method ("nonconsolidated affiliates"). The investments are included in Other assets in the Consolidated Balance Sheets and the equity earnings are included in Equity earnings from nonconsolidated affiliates, net of tax in the Consolidated Statements of Comprehensive Income. Refer to the tables below for the investment balances that are included in the Consolidated Balance Sheets and for the equity earnings that are included in the Consolidated Statements of Comprehensive Income.

(in millions)	June 2, 2018	June 3, 2017
Investments in nonconsolidated affiliates	\$ 16.8	\$ 16.2

(in millions)	June 2, 2018	June 3, 2017	May 28, 2016
Equity earnings from nonconsolidated affiliates	\$ 3.0	\$ 1.6	\$ 0.4

The company had an ownership interest in five nonconsolidated affiliates at June 2, 2018. Refer to the company's ownership percentages shown below:

Ownership Interest	June 2, 2018	June 3, 2017
Kvadrat Maharam Arabia DMCC	50.0%	50.0%
Kvadrat Maharam Pty Limited	50.0%	50.0%
Kvadrat Maharam Turkey JSC	50.0%	50.0%
Danskina B.V.	50.0%	50.0%
Naughtone Holdings Limited	50.0%	50.0%

Kvadrat Maharam

The Kvadrat Maharam nonconsolidated affiliates are distribution entities that are engaged in selling decorative upholstery, drapery and wall covering products. At June 2, 2018 and June 3, 2017, the company's investment value in Kvadrat Maharam Pty was \$1.9 million and \$1.8 million more than the company's proportionate share of the underlying net assets, respectively. This difference was driven by a step-up in fair value of the investment in Kvadrat Maharam Pty, stemming from the Maharam business combination. This amount is considered to be a permanent basis difference.

Naughtone

At June 2, 2018, the company's investment value in Naughtone was \$10.2 million more than the company's proportionate share of the underlying net assets, of which \$2.4 million was being amortized over the remaining useful lives of the assets, while \$7.8 million was considered a permanent basis difference. The change in the permanent basis difference from the prior year was due to changes in foreign currency exchange rates.

At June 3, 2017, the company's investment value in Naughtone was \$9.8 million more than the company's proportionate share of the underlying net assets, of which \$2.3 million was being amortized over the remaining useful lives of the assets, while \$7.5 million was considered a permanent basis difference.

Transactions with Nonconsolidated Affiliates

Sales to and purchases from nonconsolidated affiliates were as follows for the periods presented below:

(in millions)	June 2, 2018	June 3, 2017	May 28, 2016
Sales to nonconsolidated affiliates	\$ 4.3	\$ 4.0	\$ 2.5
Purchases from nonconsolidated affiliates	\$ 6.8	\$ 4.2	\$ 0.9

Balances due to or due from nonconsolidated affiliates were as follows for the periods presented below:

(in millions)	June 2, 2018	June 3, 2017
Receivables from nonconsolidated affiliates	\$ 0.9	\$ 0.8
Payables to nonconsolidated affiliates	\$ 1.0	\$ 0.5

5. Long-Term Debt

Long-term debt consisted of the following obligations:

(In millions)	June 2, 2018	June 3, 2017
Series B Senior Notes, 6.42%, due January 3, 2018	\$ —	\$ 149.9
Debt securities, 6.0%, due March 1, 2021	50.0	50.0
Syndicated Revolving Line of Credit, due September 2021	225.0	—
Construction-Type Lease	7.0	7.0
Supplier financing program	3.8	3.2
Total debt	\$ 285.8	\$ 210.1
Less: Current debt	(10.8)	(10.2)
Long-term debt	\$ 275.0	\$ 199.9

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

On January 3, 2018, the company borrowed \$225.0 million on its existing revolving line of credit. Of these proceeds, \$150.0 million was used to repay its Series B senior notes upon maturity, while the rest of the proceeds was designated for general business purposes.

As of June 2, 2018, the total debt outstanding related to borrowings under the syndicated revolving line of credit was \$225.0 million. Available borrowings against this facility were \$166.8 million due to \$8.2 million related to outstanding letters of credit. As of June 3, 2017, there were zero outstanding borrowings against this facility and available borrowings were \$391.7 million due to \$8.3 million related to outstanding letters of credit.

Our senior notes and the unsecured senior revolving credit facility restrict, without prior consent, our borrowings, capital leases and the sale of certain assets. In addition, we have agreed to maintain certain financial performance ratios, which include a maximum leverage ratio covenant, which is measured by the ratio of debt to trailing four quarter adjusted EBITDA (as defined in the credit agreement) and is required to be less than 3.5:1, except that we may elect, under certain conditions, to increase the maximum Leverage Ratio to 4:1 for four consecutive fiscal quarter end dates. The covenants also require a minimum interest coverage ratio, which is measured by the ratio of trailing four quarter EBITDA to trailing four quarter interest expense (as defined in the credit agreement) and is required to be greater than 4:1. Adjusted EBITDA is generally defined in the credit agreement as EBITDA adjusted by certain items which include non-cash share-based compensation, non-recurring restructuring costs and extraordinary items. At June 2, 2018 and June 3, 2017, the company was in compliance with all of these restrictions and performance ratios.

Supplier Financing Program

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

The company has lengthened the payment terms for certain suppliers that have chosen to participate in the program. As a result, certain amounts due to suppliers have payment terms that are longer than standard industry practice and as such, these amounts have been excluded from the caption "Accounts payable" in the Condensed Consolidated Balance Sheets as the amounts have been accounted for by the company as a current debt obligation. Accordingly, \$3.8 million and \$3.2 million have been recorded within the caption "Other accrued liabilities" for the periods ended June 2, 2018 and June 3, 2017, respectively.

Construction-Type Lease

During fiscal 2015, the company entered into a lease agreement for the occupancy of a new studio facility in Palo Alto, California. During fiscal 2017, the company became the deemed owner of the leased building for accounting purposes as a result of the company's involvement during the construction phase of the project. The lease is therefore accounted for as a financing transaction and the recorded asset and related financing obligation have been recorded in the Consolidated Balance Sheets within both Construction in progress and Other accrued liabilities for the fiscal periods ended June 2, 2018 and June 3, 2017. The value of the building and the related financing liability was \$7.0 million at June 2, 2018 and June 3, 2017. The original fair value of the building and the related financing liability was determined through a blend of an income approach,

comparable property sales approach and a replacement cost approach. Upon completion of construction, the liability will be reclassified into Long-term debt.

Annual maturities of long-term debt for the five fiscal years subsequent to June 2, 2018 are as shown in the table below.

(In millions)

2019	\$	—
2020	\$	—
2021	\$	50.0
2022	\$	225.0
2023	\$	—
Thereafter	\$	—

6. Operating Leases

The company leases real property and equipment under agreements that expire on various dates. Certain leases contain renewal provisions and generally require the company to pay utilities, insurance, taxes, and other operating expenses.

Future minimum rental payments required under operating leases that have non-cancelable lease terms as of June 2, 2018, are as follows:

(In millions)

2019	\$	45.8
2020	\$	42.8
2021	\$	40.5
2022	\$	43.1
2023	\$	32.5
Thereafter	\$	123.8

Total rental expense charged to operations was \$49.3 million, \$45.3 million and \$45.6 million, in fiscal 2018, 2017 and 2016, respectively. Substantially all such rental expense represented the minimum rental payments under operating leases.

7. Employee Benefit Plans

The company maintains retirement benefit plans for substantially all of its employees.

Pension Plans and Post-Retirement Medical Insurance

The company offers certain employees retirement benefits under domestic defined benefit plans. The company provides healthcare benefits to employees who retired from service on or before a qualifying date in 1998. As of the qualifying date, the company discontinued offering post-retirement medical to future retirees. Benefits to qualifying retirees under this plan are based on the employee's years of service and age at the date of retirement. In addition to the domestic pension and retiree healthcare plan, one of the company's wholly owned foreign subsidiaries has a defined-benefit pension plan based upon an average final pay benefit calculation. The measurement date for the company's remaining domestic and international pension plans, as well as its post-retirement medical plan, is the last day of the fiscal year.

Benefit Obligations and Funded Status

The following table presents, for the fiscal years noted, a summary of the changes in the projected benefit obligation, plan assets and funded status of the company's domestic and international pension plans and post-retirement plan:

(In millions)	Pension Benefits				Post-Retirement Benefits	
	2018		2017		2018	2017
	Domestic	International	Domestic	International		
Change in benefit obligation:						
Benefit obligation at beginning of year	\$ 1.0	\$ 113.8	\$ 1.0	\$ 104.4	\$ 5.0	\$ 5.9
Interest cost	0.1	2.7	0.1	2.7	0.1	0.2
Foreign exchange impact	—	4.2	—	(12.5)	—	—
Actuarial (gain) loss	—	(12.2)	—	23.4	(0.5)	(0.4)
Benefits paid	(0.1)	(2.6)	(0.1)	(4.2)	(0.6)	(0.7)
Benefit obligation at end of year	<u>\$ 1.0</u>	<u>\$ 105.9</u>	<u>\$ 1.0</u>	<u>\$ 113.8</u>	<u>\$ 4.0</u>	<u>\$ 5.0</u>
Change in plan assets:						
Fair value of plan assets at beginning of year	\$ —	\$ 80.5	\$ —	\$ 85.0	\$ —	\$ —
Actual return on plan assets	—	1.2	—	9.6	—	—
Foreign exchange impact	—	2.8	—	(10.3)	—	—
Employer contributions	0.1	12.7	0.1	0.4	0.6	0.7
Benefits paid	(0.1)	(2.6)	(0.1)	(4.2)	(0.6)	(0.7)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>\$ 94.6</u>	<u>\$ —</u>	<u>\$ 80.5</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status:						
Under funded status at end of year	<u>\$ (1.0)</u>	<u>\$ (11.3)</u>	<u>\$ (1.0)</u>	<u>\$ (33.3)</u>	<u>\$ (4.0)</u>	<u>\$ (5.0)</u>
Components of the amounts recognized in the Consolidated Balance Sheets:						
Current liabilities	\$ (0.1)	\$ —	\$ (0.1)	\$ —	\$ (0.6)	\$ (0.7)
Non-current liabilities	\$ (0.9)	\$ (11.3)	\$ (0.9)	\$ (33.3)	\$ (3.4)	\$ (4.3)
Components of the amounts recognized in Accumulated other comprehensive loss before the effect of income taxes:						
Unrecognized net actuarial loss (gain)	\$ 0.3	\$ 40.8	\$ 0.3	\$ 50.9	\$ (1.1)	\$ (0.6)
Accumulated other comprehensive loss	<u>\$ 0.3</u>	<u>\$ 40.8</u>	<u>\$ 0.3</u>	<u>\$ 50.9</u>	<u>\$ (1.1)</u>	<u>\$ (0.6)</u>

The accumulated benefit obligation for the company's domestic pension benefit plans totaled \$1.0 million as of the end of both fiscal 2018 and fiscal 2017. For its international plans, the accumulated benefit obligation totaled \$102.2 million and \$110.0 million as of fiscal 2018 and fiscal 2017, respectively. The following table summarizes the totals for pension plans with accumulated benefit obligations in excess of plan assets:

Pension Plans with Accumulated Benefit Obligation in Excess of Plan Assets

(In millions)	2018	2017
Projected benefit obligation	\$ 106.9	\$ 114.8
Accumulated benefit obligation	\$ 103.1	\$ 111.0
Fair value of plan assets	\$ 94.6	\$ 80.5

The following table is a summary of the annual cost of the company's pension and post-retirement plans:

Components of Net Periodic Benefit Costs and Other Changes Recognized in Other Comprehensive Income:

(In millions)	Pension Benefits			Post-Retirement Benefits		
	2018	2017	2016	2018	2017	2016
Domestic:						
Interest cost	\$ 0.1	\$ 0.1	\$ —	\$ 0.1	\$ 0.2	\$ 0.2
Net periodic benefit cost	<u>\$ 0.1</u>	<u>\$ 0.1</u>	<u>\$ —</u>	<u>\$ 0.1</u>	<u>\$ 0.2</u>	<u>\$ 0.2</u>
International:						
Interest cost	\$ 2.7	\$ 2.7	\$ 3.8			
Expected return on plan assets	(5.6)	(4.7)	(5.4)			
Net amortization	4.2	2.2	2.8			
Net periodic benefit cost	<u>\$ 1.3</u>	<u>\$ 0.2</u>	<u>\$ 1.2</u>			

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive (Income):

(In millions)	Pension Benefits		Post-Retirement Benefits	
	2018	2017	2018	2017
Domestic:				
Net actuarial gain	\$ —	\$ —	\$ (0.5)	\$ (0.4)
Total recognized in other comprehensive loss	\$ —	\$ —	\$ (0.5)	\$ (0.4)
International:				
Net actuarial (gain) loss	\$ (7.7)	\$ 18.6		
Net amortization	(4.2)	(2.2)		
Total recognized in other comprehensive loss	\$ (11.9)	\$ 16.4		

The net actuarial loss, included in accumulated other comprehensive loss (pretax), expected to be recognized in net periodic benefit cost during fiscal 2019 is \$2.9 million.

Actuarial Assumptions

The weighted-average actuarial assumptions used to determine the benefit obligation amounts and the net periodic benefit cost for the company's pension and post-retirement plans are as follows:

The weighted-average used in the determination of net periodic benefit cost:

(Percentages)	2018		2017		2016	
	Domestic	International	Domestic	International	Domestic	International
Discount rate	3.53	2.49	3.51	3.43	3.41	3.50
Compensation increase rate	n/a	3.25	n/a	2.95	n/a	3.20
Expected return on plan assets	n/a	6.10	n/a	6.10	n/a	6.10

The weighted-average used in the determination of the projected benefit obligations:

Discount rate	3.99	2.87	3.53	2.49	3.51	3.43
Compensation increase rate	n/a	3.10	n/a	3.25	n/a	2.95

Effective May 28, 2016, the company changed the method it uses to estimate the interest component of net periodic benefit cost for pension and other postretirement benefits. Historically, the company has estimated the interest cost component utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. The company has elected to utilize a full yield curve approach in the estimation of interest cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. The company has made this change to provide a more precise measurement of interest cost by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. The company accounted for this change as a change in accounting estimate and accordingly, accounted for it prospectively. The impact of this change on consolidated earnings for fiscal 2018 and 2017 was a reduction of the interest cost component of net periodic benefit cost of approximately \$0.3 million and \$0.4 million.

In calculating post-retirement benefit obligations for fiscal 2018, a 7.1 percent annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2019, decreasing gradually to 4.3 percent by 2038 and remaining at that level thereafter. For purposes of calculating post-retirement benefit costs, a 7.5 percent annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2018, decreasing gradually to 4.3 percent by 2038 and remaining at that level thereafter.

Assumed health care cost-trend rates have a significant effect on the amounts reported for retiree health care costs. A one-percentage-point change in the assumed health care cost-trend rates would have the following effects:

(In millions)	1 Percent Increase		1 Percent Decrease	
Effect on total fiscal 2018 service and interest cost components	\$	—	\$	—
Effect on post-retirement benefit obligation at June 2, 2018	\$	0.1	\$	(0.1)

Plan Assets and Investment Strategies

The company's international employee benefit plan assets consist mainly of listed fixed income obligations and common/collective trusts. The company's primary objective for invested pension plan assets is to provide for sufficient long-term growth and liquidity to satisfy all of its benefit obligations over time. Accordingly, the company has developed an investment strategy that it believes maximizes the probability of meeting this

overall objective. This strategy includes the development of a target investment allocation by asset category in order to provide guidelines for making investment decisions. This target allocation emphasizes the long-term characteristics of individual asset classes as well as the diversification among multiple asset classes. In developing its strategy, the company considered the need to balance the varying risks associated with each asset class with the long-term nature of its benefit obligations. The company's strategy moving forward will be to increase the level of fixed income investments as the funding status improves, thereby more closely matching the return on assets with the liabilities of the plans.

The company utilizes independent investment managers to assist with investment decisions within the overall guidelines of the investment strategy. The target asset allocation at the end of fiscal 2018 and asset categories for the company's primary international pension plan for fiscal 2018 and 2017 are as follows:

Asset Category	Targeted Asset Allocation Percentage		Percentage of Plan Assets at Year End	
	2018	2017	2018	2017
Fixed income	35	20	36	27
Common collective trusts	65	80	64	73
Total			100	100

Asset Category	International Plan as of June 2, 2018		
	Level 1	Level 2	Total
Cash and cash equivalents	\$ 0.2	\$ —	\$ 0.2
Foreign government obligations	—	33.4	33.4
Common collective trusts-balanced	—	61.0	61.0
Total	\$ 0.2	\$ 94.4	\$ 94.6

Asset Category	International Plan as of June 3, 2017		
	Level 1	Level 2	Total
Cash and cash equivalents	\$ 0.2	\$ —	\$ 0.2
Foreign government obligations	—	21.4	21.4
Common collective trusts-balanced	—	58.9	58.9
Total	\$ 0.2	\$ 80.3	\$ 80.5

Cash Flows

The company reviews pension funding requirements to determine the contribution to be made in the next year. Actual contributions will be dependent upon investment returns, changes in pension obligations and other economic and regulatory factors. During fiscal 2018, the company made total cash contributions of \$13.4 million to its benefit plans. In fiscal 2017, the company made total cash contributions of \$1.1 million to its benefit plans.

The following represents a summary of the benefits expected to be paid by the plans in future fiscal years. These expected benefits were estimated based on the same actuarial valuation assumptions used to determine benefit obligations at June 2, 2018.

(In millions)	Pension Benefits Domestic		Pension Benefits International		Post-Retirement Benefits	
2019	\$	0.1	\$	2.0	\$	0.6
2020	\$	0.1	\$	2.0	\$	0.5
2021	\$	0.1	\$	2.1	\$	0.5
2022	\$	0.1	\$	2.5	\$	0.4
2023	\$	0.1	\$	2.4	\$	0.4
2024-2028	\$	0.3	\$	16.5	\$	1.4

Profit Sharing, 401(k) Plan, and Core Contribution

Substantially all of the company's domestic employees are eligible to participate in a defined contribution retirement plan, primarily the Herman Miller, Inc. profit sharing and 401(k) plan (the "plan"). Employees under the plan are eligible to begin participating on their date of hire. Until June 4, 2017, the plan provided for discretionary contributions for eligible participants, payable in the company's common stock, of not more than 6 percent of employees' wages based on the company's financial performance. Effective June 4, 2017, the company discontinued the Employer Profit Sharing Contribution and instead, began allocating those funds to other components of pay and retirement. Under the plan the company matches 100 percent of employee contributions to their 401(k) accounts up to 3 percent of their pay. Effective September 3, 2017, the company increased the Employer Matching Contribution from 3 percent to 4 percent for all eligible employees. A core contribution of 4 percent

is also included for most participants of the plan. There was an additional 1 percent contribution added to the quarterly Core Contribution for the quarter prior to the increased Employer Matching Contribution effective September 3, 2017. The company's other defined contribution retirement plans may provide for matching contributions, non-elective contributions and discretionary contributions as declared by management.

The cost of the Herman Miller, Inc. profit sharing contribution during fiscal 2017 and 2016 was \$6.0 million and \$10.9 million, respectively. No profit sharing contribution was made in fiscal 2018. The expense recorded for the company's 401(k) matching contributions and core contributions was approximately \$24.9 million, \$22.8 million and \$21.9 million in fiscal years 2018, 2017 and 2016, respectively.

8. Common Stock and Per Share Information

The following table reconciles the numerators and denominators used in the calculations of basic and diluted EPS for each of the last three fiscal years:

(In millions, except shares)	2018	2017	2016
<u>Numerator:</u>			
Numerator for both basic and diluted EPS, Net earnings attributable to Herman Miller, Inc.	\$ 128.1	\$ 123.9	\$ 136.7
<u>Denominator:</u>			
Denominator for basic EPS, weighted-average common shares outstanding	59,681,268	59,871,805	59,844,540
Potentially dilutive shares resulting from stock plans	630,037	682,784	684,729
Denominator for diluted EPS	<u>60,311,305</u>	<u>60,554,589</u>	<u>60,529,269</u>

Equity awards of 348,089 shares, 764,154 shares and 528,676 shares of common stock were excluded from the denominator for the computation of diluted earnings per share for the fiscal years ended June 2, 2018, June 3, 2017 and May 28, 2016, respectively, because they were anti-dilutive. The company has certain share-based payment awards that meet the definition of participating securities.

Common Stock

The company has 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. During fiscal year 2018, 2017, and 2016, shares repurchased and retired totaled 1,356,156, 765,556, and 482,040 shares respectively.

9. Stock-Based Compensation

The company utilizes equity-based compensation incentives as a component of its employee and non-employee director and officer compensation philosophy. Currently, these incentives consist principally of stock options, restricted stock, restricted stock units and performance share units. The company also offers a stock purchase plan for its domestic and certain international employees. The company issues shares in connection with its share-based compensation plans from authorized, but unissued, shares. At June 2, 2018 there were 5,991,307 shares authorized under the various stock-based compensation plans.

Valuation and Expense Information

The company measures the cost of employee services received in exchange for an award of equity instruments based on their grant-date fair market value. This cost is recognized over the requisite service period.

Certain of the company's equity-based compensation awards contain provisions that allow for continued vesting into retirement. Stock-based awards are considered fully vested for expense attribution purposes when the employee's retention of the award is no longer contingent on providing subsequent service.

The company classifies pre-tax stock-based compensation expense primarily within Operating expenses in the Consolidated Statements of Comprehensive Income. Pre-tax compensation expense and the related income tax benefit for all types of stock-based programs was as follows for the periods indicated:

(In millions)	June 2, 2018	June 3, 2017	May 28, 2016
Employee stock purchase program	\$ 0.3	\$ 0.3	\$ 0.3
Stock option plans	2.6	2.0	1.9
Restricted stock units	3.9	3.6	3.2
Performance share units	0.9	2.8	6.5
Total	\$ 7.7	\$ 8.7	\$ 11.9
Tax benefit	\$ 2.3	\$ 3.1	\$ 4.3

As of June 2, 2018, total pre-tax stock-based compensation cost not yet recognized related to non-vested awards was approximately \$7.8 million. The weighted-average period over which this amount is expected to be recognized is 0.79 years.

Employee Stock Purchase Program

Under the terms of the company's Employee Stock Purchase Plan, 4 million shares of authorized common stock were reserved for purchase by plan participants at 85 percent of the market price. Shares of common stock purchased under the employee stock purchase plan were 67,335, 68,547, and 70,768 for the fiscal years ended 2018, 2017 and 2016 respectively.

Stock Option Plans

The company has stock option plans under which options to purchase the company's stock may be granted to employees and non-employee directors at a price not less than the market price of the company's common stock on the date of grant. Under the current award program, all options become exercisable between one and three years from date of grant and expire ten years from date of grant. Most options are subject to graded vesting with the related compensation expense recognized on a straight-line basis over the requisite service period.

The company estimated the fair value of employee stock options on the date of grant using the Black-Scholes model. In determining these values, the following weighted-average assumptions were used for the options granted during the fiscal years indicated:

	2018	2017	2016
Risk-free interest rates ⁽¹⁾	1.79%	1.01%	1.51%
Expected term of options ⁽²⁾	4.6 years	4.0 years	4.0 years
Expected volatility ⁽³⁾	26%	26%	33%
Dividend yield ⁽⁴⁾	2.23%	2.13%	2.03%
Weighted-average grant-date fair value of stock options:			
Granted with exercise prices equal to the fair market value of the stock on the date of grant	\$ 6.39	\$ 5.50	\$ 6.73

(1) Represents term-matched, zero-coupon risk-free rate from the Treasury Constant Maturity yield curve, continuously compounded.

(2) Represents historical settlement data, using midpoint scenario with 1-year grant date filter assumption for outstanding options.

(3) The blended volatility approach was used. 90% term-matched historical volatility from daily stock prices and 10% percent weighted average implied volatility from the 90 days preceding the grant date.

(4) Represents the quarterly dividend divided by the three-month average stock price as of the grant date, annualized and continuously compounded.

The following is a summary of the transactions under the company's stock option plans:

	Shares Under Option	Weighted-Average Exercise Prices	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In millions)
Outstanding at June 3, 2017	1,329,702	\$ 28.36	7.26	\$ 5.8
Granted at market	323,412	\$ 33.75		
Exercised	(538,259)	\$ 27.28		
Forfeited or expired	(51,606)	\$ 32.83		
Outstanding at June 2, 2018	<u>1,063,249</u>	\$ 30.33	7.45	\$ 2.9
Ending vested + expected to vest	1,063,249	\$ 30.33	7.45	\$ 2.9
Exercisable at end of period	265,519	\$ 23.96	4.78	\$ 2.4

The weighted-average remaining recognition period of the outstanding stock options at June 2, 2018 was 0.75 years. The total pre-tax intrinsic value of options exercised during fiscal 2018, 2017 and 2016 was \$5.0 million, \$1.3 million and \$2.3 million, respectively. The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on the company's closing stock price as of the end of the period.

presented, which would have been received by the option holders had all option holders exercised in-the-money options as of that date. Total cash received during fiscal 2018 from the exercise of stock options was \$4.4 million.

Restricted Stock Units

The company grants restricted stock units to certain key employees. This program provides that the actual number of restricted stock units awarded is based on the value of a portion of the participant's long-term incentive compensation divided by the fair value of the company's stock on the date of grant. In some years the awards have been partially tied to the company's financial performance for the year in which the grant was based. The awards generally cliff-vest after a three-year service period, with prorated vesting under certain circumstances and full or partial accelerated vesting upon retirement. Each restricted stock unit represents one equivalent share of the company's common stock to be awarded, free of restrictions, after the vesting period. Compensation expense related to these awards is recognized over the requisite service period, which includes any applicable performance period. Dividend equivalent awards are credited quarterly. The units do not entitle participants to the rights of stockholders of common stock, such as voting rights, until shares are issued after vesting.

The following is a summary of restricted stock unit transactions for the fiscal years indicated:

	Share Units	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value in Millions	Weighted-Average Remaining Contractual Term (Years)
Outstanding at June 3, 2017	384,952	\$ 28.73	\$ 12.6	1.14
Granted	242,012	\$ 35.28		
Forfeited	(19,233)	\$ 30.86		
Released	(126,704)	\$ 27.75		
Outstanding at June 2, 2018	481,027	\$ 32.20	\$ 15.8	1.28
Ending vested + expected to vest	481,027	32.20	\$ 15.8	1.28

The weighted-average remaining recognition period of the outstanding restricted stock units at June 2, 2018, was 1.15 years. The fair value of the share units that vested during the twelve months ended June 2, 2018, was \$4.3 million. The weighted average grant-date fair value of restricted stock units granted during 2018, 2017, and 2016 was \$35.28, \$31.83 and \$29.03 respectively.

Performance Share Units

The company grants performance share units to certain key employees. The number of units initially awarded was based on the value of a portion of the participant's long-term incentive compensation, divided by the fair value of the company's common stock on the date of grant. Each unit represents one equivalent share of the company's common stock. The number of common shares ultimately issued in connection with these performance share units is determined based on the company's financial performance over the related three-year service period or the company's financial performance based on certain total shareholder return results as compared to a selected group of peer companies. Compensation expense is determined based on the grant-date fair value and the number of common shares projected to be issued, and is recognized over the requisite service period.

The following is a summary of performance share unit transactions for the fiscal years indicated:

	Share Units	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value in Millions	Weighted-Average Remaining Contractual Term (Years)
Outstanding at June 3, 2017	417,947	\$ 31.18	\$ 13.7	1.03
Granted	129,131	\$ 31.28		
Forfeited	(42,339)	\$ 34.27		
Released	(130,179)	\$ 31.47		
Outstanding at June 2, 2018	374,560	\$ 30.76	\$ 12.3	1.01
Ending vested + expected to vest	374,560	\$ 30.76	\$ 12.3	1.01

The weighted-average remaining recognition period of the outstanding performance share units at June 2, 2018, was 0.73 years. The fair value for shares that vested during the twelve months ended June 2, 2018, was \$4.5 million. The weighted average grant-date fair value of performance share units granted during 2018, 2017, and 2016 was \$31.28, \$29.40, and \$30.81 respectively.

Herman Miller Consumer Holdings Stock (HMCH) Option Plan

Certain employees were granted options to purchase stock of HMCH at a price not less than the market price of HMCH common stock on the date of grant. For the grants of options under the award program, options are potentially exercisable between one year and five years from date of grant and expire at the end of the window period that follows the fifth anniversary of the grant date. Vesting is based on the performance of

HMCH over a period of five years. Certain of these options have been classified as liability awards as the holders have the right to put the underlying shares to the company immediately upon exercise. Given this, the awards are measured at fair value at the end of each reporting period and compensation expense is adjusted accordingly to reflect the fair value over the requisite service period. The company estimates the issuance date fair value of HMCH stock options on the date of grant using the Black-Scholes model. The expense for these awards was \$0.6 million during fiscal 2018 and the related liability for these awards was \$0.9 million as of the end of fiscal 2018. The liability for the HMCH stock options is recorded within the Consolidated Balance Sheets within the "Other liabilities" line item.

The following weighted-average assumptions were used to value the liability associated with HMCH stock options as of June 2, 2018 and June 3, 2017:

	2018	2017
Risk-free interest rates ⁽¹⁾	2.29%	1.29%
Expected term of options ⁽²⁾	1.1 years	2.1 years
Expected volatility ⁽³⁾	35%	35%
Dividend yield	not applicable	not applicable
Strike price	\$ 30.64	24.39
Per share value ⁽⁴⁾	\$ 8.24	3.24

(1) Represents the U.S. Treasury yield over the same period as the expected option term.

(2) Represents the period of time that options granted are expected to be outstanding.

(3) Amount is determined based on analysis of historical price volatility of the common stock of peer companies over a period equal to the expected term of the options.

(4) Based on the Black-Scholes formula.

	Shares Under Option	Weighted-Average Exercise Prices	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In millions)
Outstanding at June 3, 2017	526,244	\$ 24.20	2.20	\$ 0.1
Granted	28,810	\$ 21.08		
Forfeited	(10,928)	\$ 24.39		
Outstanding at June 2, 2018	544,126	\$ 24.04	1.20	\$ 3.6
Exercisable at end of period	75,568	\$ 21.83	1.20	\$ 0.6

There were no HMCH options exercised during fiscal 2018. The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on the HMCH market price, less the strike price, as of the end of the period presented, which would have been received by the option holders had all option holders exercised in-the-money options as of that date.

Deferred Compensation Plan

The Herman Miller, Inc. Executive Equalization Retirement Plan is a supplemental deferred compensation plan and was made available for salary deferrals and company contributions beginning in January 2008. The plan is available to a select group of management or highly compensated employees who are selected for participation by the Executive Compensation Committee of the Board of Directors. The plan allows participants to defer up to 50 percent of their base salary and up to 100 percent of their incentive cash bonus. Company contributions to the plan "mirror" the amounts the company would have contributed to the various qualified retirement plans had the employee's compensation not been above the IRS statutory ceiling (\$275,000 in 2018). The company does not guarantee a rate of return for these funds. Instead, participants make investment elections for their deferrals and company contributions. Investment options are the same as those available under the Herman Miller Profit Sharing and 401(k) Plan, except for company stock, which is not an investment option under this plan.

The Nonemployee Officer and Director Deferred Compensation Plan allows the Board of Directors of the company to defer a portion of their annual director fee. Investment options are the same as those available under the Herman Miller Profit Sharing and 401(k) Plan, including company stock.

In accordance with the terms of the Executive Equalization Plan and Nonemployee Officer and Director Deferred Compensation Plan, the salary and bonus deferrals, company contributions and director fee deferrals have been placed in a Rabbi trust. The assets in the Rabbi trust remain subject to the claims of creditors of the company and are not the property of the participant. Investments in securities other than the company's common stock are included within the Other assets line item, while investments in the company's stock are included in the line item Key executive deferred compensation in the company's Consolidated Balance Sheets. A liability of the same amount is recorded on the Consolidated Balance Sheets within the Other liabilities line item. Investment assets are classified as trading, and accordingly, realized and unrealized gains and losses are recognized within the company's Consolidated Statements of Comprehensive Income in the Interest and other investment income line item.

The associated changes to the liability are recorded as compensation expense within the Selling, general and administrative line item within the company's Consolidated Statements of Comprehensive Income. The net effect of any change to the asset and corresponding liability is offset and has no impact on Net earnings in the Consolidated Statements of Comprehensive Income.

Director Fees

Company directors may elect to receive their director fees in one or more of the following forms: cash, deferred compensation in the form of shares or other selected investment funds, unrestricted company stock at the market value at the date of election or stock options that vest in one year and expire in ten years. The exercise price of the stock options granted may not be less than the market price of the company's common stock on the date of grant. Under the plan, the Board members received the following shares or options in the fiscal years indicated:

	2018	2017	2016
Shares of common stock	8,828	9,982	21,988
Shares through the deferred compensation program	2,207	2,582	3,118

10. Income Taxes

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

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.

Securities and Exchange Commission Staff Accounting Bulletin No. 118 allows the use of provisional amounts if accounting for certain income tax effects of the Act has not been completed by the time the company's financial statements are issued. A measurement period is provided beginning December 22, 2017 and shall not last longer than one year. Provisional amounts must be adjusted during the measurement period as accounting for the income tax effects of the Act is completed. For the fiscal year ended June 2, 2018, the company has not completed its accounting for all of the effects of the Act.

The Act is comprehensive and further guidance is expected from the Internal Revenue Service and the U.S. Treasury Department. Based on our analysis of the Act to date, we have provided the following reasonable estimates. The fiscal year ended June 2, 2018 included a provisional amount of \$3 million in reduced income tax expense resulting from the reduced federal income tax rate. Additionally, as part of the transition towards the participation exemption system, in the fiscal period ended June 2, 2018, the company recorded a provisional U.S. tax liability of \$9 million on certain undistributed foreign earnings, which is payable over eight years. The one-time tax is based in part on the amount of foreign earnings held in cash and other specified assets as of June 2, 2018. Finally, a favorable impact totaling \$8.9 million was recognized as a result of applying the lower federal income tax rates to the company's net deferred tax liabilities.

Upon enactment of the new law in our three-month period ended March 3, 2018, we had disclosed an initial favorable impact of \$8.7 million applying lower federal income tax rates to the company's net deferred tax liabilities and an initial \$9.2 million U.S. tax liability on certain undistributed foreign earnings. These amounts, as noted above, were adjusted as of June 2, 2018 due to an analysis of additional available information as well as further clarification with respect to the new laws. The company will continue to refine its calculations as additional analysis is completed and further guidance is issued. These changes could be material to the consolidated financial statements.

For tax years beginning after December 31, 2017, the Act subjects a U.S. shareholder to tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, *Accounting for Global Intangible Low-Taxed Income*, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. The company is still evaluating the effects of the GILTI provisions and has not yet determined its accounting policy.

The components of earnings before income taxes are as follows:

(In millions)	2018	2017	2016
Domestic	\$ 121.6	\$ 131.4	\$ 154.9
Foreign	46.5	46.2	41.7
Total	\$ 168.1	\$ 177.6	\$ 196.6

The provision (benefit) for income taxes consists of the following:

(In millions)	2018	2017	2016
Current: Domestic - Federal	\$ 30.2	\$ 28.7	\$ 36.4
Domestic - State	4.3	2.3	6.4
Foreign	10.7	11.1	6.3
	<u>45.2</u>	<u>42.1</u>	<u>49.1</u>
Deferred: Domestic - Federal	(4.1)	9.2	7.5
Domestic - State	0.1	2.8	0.2
Foreign	1.2	1.0	2.7
	<u>(2.8)</u>	<u>13.0</u>	<u>10.4</u>
Total income tax provision	<u>\$ 42.4</u>	<u>\$ 55.1</u>	<u>\$ 59.5</u>

The following table represents a reconciliation of income taxes at the United States blended statutory rate of 29.1 percent for 2018 and 35.0 percent for 2017 and 2016 with the effective tax rate as follows:

(In millions)	2018	2017	2016
Income taxes computed at the United States Statutory rate	\$ 49.0	\$ 62.2	\$ 68.8
Increase (decrease) in taxes resulting from:			
Remeasurement of U.S. deferred tax assets and liabilities due to the Tax Act	(8.9)	—	—
U.S. tax liability on undistributed foreign earnings due to the Tax Act	9.0	—	—
Foreign statutory rate differences	(4.0)	(5.7)	(4.3)
Manufacturing deduction under the American Jobs Creation Act of 2004	(2.7)	(3.4)	(4.8)
State taxes	3.3	3.8	5.2
United Kingdom patent box deduction for research and development	(1.8)	(2.6)	(1.7)
Research and development credit	(2.4)	(1.4)	(1.4)
Sale of manufacturing facility in the United Kingdom	—	—	(1.6)
Other, net	0.9	2.2	(0.7)
Income tax expense	<u>\$ 42.4</u>	<u>\$ 55.1</u>	<u>\$ 59.5</u>
Effective tax rate	<u>25.2%</u>	<u>31.1%</u>	<u>30.3%</u>

The tax effects and types of temporary differences that give rise to significant components of the deferred tax assets and liabilities at June 2, 2018 and June 3, 2017, are as follows:

(In millions)	2018	2017
Deferred tax assets:		
Compensation-related accruals	\$ 15.3	\$ 22.7
Accrued pension and post-retirement benefit obligations	6.6	10.9
Deferred revenue	5.6	5.3
Inventory related	1.0	4.1
Reserves for uncollectible accounts and notes receivable	0.6	1.0
Other reserves and accruals	5.2	6.1
Warranty	11.9	17.0
State and local tax net operating loss carryforwards and credits	2.3	2.7
Federal net operating loss carryforward	1.7	5.0
Foreign tax net operating loss carryforwards and credits	10.0	10.0
Accrued step rent and tenant reimbursements	3.8	4.7
Other	3.9	4.2
Subtotal	67.9	93.7
Valuation allowance	(10.3)	(10.0)
Total	<u>\$ 57.6</u>	<u>\$ 83.7</u>
Deferred tax liabilities:		
Book basis in property in excess of tax basis	\$ (25.5)	\$ (37.4)
Intangible assets	(32.3)	(47.3)
Other	(6.9)	(3.2)
Total	<u>\$ (64.7)</u>	<u>\$ (87.9)</u>

The future tax benefits of net operating loss (NOL) carry-forwards and foreign tax credits are recognized to the extent that realization of these benefits is considered more likely than not. The company bases this determination on the expectation that related operations will be sufficiently profitable or various tax planning strategies will enable the company to utilize the NOL carry-forwards and/or foreign tax credits. To the extent that available evidence about the future raises doubt about the realization of these tax benefits, a valuation allowance is established.

At June 2, 2018, the company had state and local tax NOL carry-forwards of \$29.4 million, the state tax benefit of which is \$1.6 million, which have various expiration periods from 1 to 21 years. The company also had state credits with a state tax benefit of \$0.7 million, which expire in 2 to 6 years. For financial statement purposes, the NOL carry-forwards and state tax credits have been recognized as deferred tax assets, subject to a valuation allowance of \$1.1 million.

At June 2, 2018, the company had federal NOL carry-forwards of \$8.1 million, the tax benefit of which is \$1.7 million, which expire in 11 years. For financial statement purposes, the NOL carry-forwards have been recognized as deferred tax assets.

At June 2, 2018, the company had federal deferred assets of \$2.0 million, the tax benefit of which is \$0.4 million, which is related to investments in various foreign joint ventures. For financial statement purposes, the assets have been recognized as deferred tax assets, subject to a valuation allowance of \$0.4 million.

At June 2, 2018, the company had foreign net operating loss carry-forwards of \$43.8 million, the tax benefit of which is \$10.0 million, which have expiration periods from 6 years to an unlimited term. The company also had foreign tax credits with a tax benefit of \$0.1 million which expire in 2 years. For financial statement purposes, NOL carry-forwards and foreign tax credits have been recognized as deferred tax assets, subject to a valuation allowance of \$8.1 million.

At June 2, 2018, the company had foreign deferred assets of \$3.4 million, the tax benefit of which is \$0.6 million, which is related to various deferred taxes in Hong Kong and Brazil as well as buildings in the United Kingdom. For financial statement purposes, the assets have been recognized as deferred tax assets, subject to a valuation allowance of \$0.6 million.

The company has recorded transition tax on undistributed foreign earnings as required by the Act. No other provision was made for income taxes that may result from future remittances of the undistributed earnings of foreign subsidiaries that are determined to be indefinitely reinvested, which was \$181.3 million on June 2, 2018. Determination of the total amount of unrecognized deferred income tax on undistributed earnings of foreign subsidiaries is not practicable.

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

(In millions)

Balance at May 28, 2016	\$	1.7
Increases related to current year income tax positions		0.3
Increases related to prior year income tax positions		1.1
Decreases related to prior year income tax positions		(0.1)
Decreases related to lapse of applicable statute of limitations		(0.1)
Decreases related to settlements		(0.1)
Balance at June 3, 2017		2.8
Increases related to current year income tax positions		0.3
Increases related to prior year income tax positions		0.4
Decreases related to lapse of applicable statute of limitations		(0.3)
Balance at June 2, 2018	\$	3.2

The company's effective tax rate would have been affected by the total amount of unrecognized tax benefits had this amount been recognized as a reduction to income tax expense.

The company recognizes interest and penalties related to unrecognized tax benefits through Income tax expense in its Consolidated Statements of Comprehensive Income. Interest and penalties and the related liability, which are excluded from the table above, were as follows for the periods indicated:

(In millions)	June 2, 2018	June 3, 2017	May 28, 2016
Interest and penalty expense (income)	\$ 0.1	\$ 0.2	\$ (0.1)
Liability for interest and penalties	\$ 1.0	\$ 0.8	

The company is subject to periodic audits by domestic and foreign tax authorities. Currently, the company is undergoing routine periodic audits in both domestic and foreign tax jurisdictions. It is reasonably possible that the amounts of unrecognized tax benefits could change in the next 12 months as a result of new positions that may be taken on income tax returns, settlement of tax positions and the closing of statutes of limitation. It is not expected that any of the changes will be material to the company's Consolidated Statements of Comprehensive Income.

During the year, the company has closed the audit of fiscal year 2017 with the Internal Revenue Service under the Compliance Assurance Process (CAP). For the majority of the remaining tax jurisdictions, the company is no longer subject to state and local, or non-U.S. income tax examinations by tax authorities for fiscal years before 2015.

11. Fair Value of Financial Instruments

The company's financial instruments consist of cash equivalents, marketable securities, accounts and notes receivable, deferred compensation plan, accounts payable, debt, redeemable noncontrolling interests and foreign currency exchange contracts. The company's financial instruments, other than long-term debt, are recorded at fair value. The fair value of fixed rate debt was based on third-party quotes (Level 2). The carrying value and fair value of the company's long-term debt, including current maturities, is as follows for the periods indicated:

(In millions)	June 2, 2018	June 3, 2017
Carrying value	\$ 285.8	\$ 210.1
Fair value	\$ 288.6	\$ 223.2

The following describes the methods the company uses to estimate the fair value of financial assets and liabilities. In fiscal 2018, the company borrowed on its revolver and invested excess cash in cash and cash equivalents. There were no other no significant changes in the current period.

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

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

Foreign currency exchange contracts — The company's foreign currency exchange contracts are valued using an approach based on foreign currency exchange rates obtained from active markets. The estimated fair value of forward currency exchange contracts is based on month-end spot rates as adjusted by current market-based activity.

Interest rate swap agreement — The company's interest rate swap agreement value is determined using a market approach based on rates obtained from active markets. The interest rate swap agreement is designated as a cash flow hedging instrument.

Deferred compensation plan assets — The company's deferred compensation plan assets primarily include domestic equity large cap and lifestyle mutual funds and are valued using quoted prices for similar securities.

Other — The company's redeemable noncontrolling interests are deemed to be a recurring level 3 fair value measurement. Refer to Note 15 for further information regarding redeemable noncontrolling interests. The purchase price allocation performed to determine fair value of the underlying assets and liabilities associated with the equity investment in Naughtone during fiscal 2017 utilized nonrecurring level 3 fair value measurements. Refer to Note 4 for further information regarding the investment in Naughtone. Nonrecurring level 3 fair value measurements were used to determine the fair value of the Nemschoff trade name, which was impaired during fiscal 2017. Refer to Note 16 for further information regarding the Nemschoff trade name impairment. Nonrecurring level 3 fair value measurements were used to determine the fair value of the building and the related financing liability associated with a construction-type lease related to a new DWR studio in Palo Alto, California. Refer to Note 5 for further information related to this lease.

The following tables set forth financial assets and liabilities measured at fair value in the Consolidated Balance Sheets and the respective pricing levels to which the fair value measurements are classified within the fair value hierarchy as of June 2, 2018 and June 3, 2017:

(In millions)	Fair Value Measurements			
	June 2, 2018		June 3, 2017	
	Quoted Prices With Other Observable Inputs (Level 2)	Management Estimates (Level 3)	Quoted Prices With Other Observable Inputs (Level 2)	Management Estimates (Level 3)
Financial Assets				
Cash Equivalents	\$ 121.0	\$ —	\$ —	\$ —
Available-for-sale securities:				
Mutual funds - fixed income	7.7	—	7.7	—
Mutual funds - equity	0.9	—	0.9	—
Foreign currency forward contracts	0.4	—	0.5	—
Interest rate swap agreement	15.0	—	3.3	—
Deferred compensation plan	15.1	—	12.8	—
Total	\$ 160.1	\$ —	\$ 25.2	\$ —
Financial Liabilities				
Foreign currency forward contracts	\$ 0.3	\$ —	\$ 0.6	\$ —
Contingent consideration	—	0.5	—	0.5
Total	\$ 0.3	\$ 0.5	\$ 0.6	\$ 0.5

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

(In millions)	June 2, 2018		June 3, 2017	
Contingent Consideration				
Beginning balance	\$ 0.5	\$ 2.7		
Net realized losses (gains)	0.1	(0.2)		
Settlements	(0.1)	(2.0)		
Ending balance	\$ 0.5	\$ 0.5		

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

The following is a summary of the carrying and market values of the company's marketable securities as of the dates indicated:

(In millions)	June 2, 2018				June 3, 2017			
	Cost	Unrealized Gain	Unrealized Loss	Market Value	Cost	Unrealized Gain	Unrealized Loss	Market Value
Mutual funds - fixed income	\$ 7.8	\$ —	\$ 0.1	\$ 7.7	\$ 7.6	\$ 0.1	\$ —	\$ 7.7
Mutual funds - equity	0.7	0.2	—	0.9	0.9	—	—	0.9
Total	\$ 8.5	\$ 0.2	\$ 0.1	\$ 8.6	\$ 8.5	\$ 0.1	\$ —	\$ 8.6

Adjustments to the fair value of available-for-sale securities are recorded as increases or decreases, net of income taxes, within Accumulated other comprehensive loss in stockholders' equity. These adjustments are also included within the caption Unrealized holding gain within the Condensed Consolidated Statements of Comprehensive Income. Unrealized gains recognized in the company's Condensed Consolidated Statement of Comprehensive Income related to available-for-sale securities were zero for the fiscal year ended June 2, 2018 and \$0.1 million for the fiscal year ended June 3, 2017. The cost of securities sold is based on the specific identification method; realized gains and losses resulting from such sales are included in the Condensed Consolidated Statements of Comprehensive Income within "Other, net".

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

The company views its available-for-sale portfolio as available for use in its current operations. Accordingly, the investments are recorded within Current Assets within the Condensed Consolidated Balance Sheets.

Derivative Instruments and Hedging Activities

Foreign Currency Forward Contracts

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

The notional amounts of the forward contracts held to purchase and sell U.S. dollars in exchange for other major international currencies were \$37.3 million and \$36.1 million as of June 2, 2018 and June 3, 2017, respectively. The notional amounts of the foreign currency forward contracts held to purchase and sell British pound sterling in exchange for other major international currencies were £19.9 million and £19.4 million as of June 2, 2018 and June 3, 2017, respectively. The company also has other forward contracts related to other currency pairs at varying notional amounts.

Interest Rate Swaps

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

The interest rate swaps were designated cash flow hedges at inception and remain an effective accounting hedge as of June 2, 2018. Since a designated derivative meets hedge accounting criteria, the fair value of the hedge is recorded in the Consolidated Statement of Stockholders'

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

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

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

The fair value of the company's two outstanding interest rate swap agreements was an asset of \$15.0 million and \$3.3 million as of June 2, 2018 and June 3, 2017, respectively. The asset fair value was recorded within Other noncurrent assets within the Condensed Consolidated Balance Sheets. The net unrealized gain recorded within Other comprehensive loss, net of tax, for the effective portion of the company's designated cash flow hedges was \$7.8 million and \$2.1 million for the fiscal years ended June 2, 2018 and June 3, 2017, respectively.

For fiscal 2018, 2017 and 2016, there were no gains or losses recognized against earnings for hedge ineffectiveness.

Effects of Derivatives on the Financial Statements

The effects of derivatives on the consolidated financial statements were as follows for the fiscal years ended 2018 and 2017 (amounts presented exclude any income tax effects):

(In millions)	Balance Sheet Location	June 2, 2018	June 3, 2017
Designated derivatives:			
Interest rate swap	Long-term assets: Other assets	\$ 15.0	\$ 3.3
Non-designated derivatives:			
Foreign currency forward contracts	Current assets: Other	\$ 0.4	\$ 0.5
Foreign currency forward contracts	Current liabilities: Other accrued liabilities	\$ 0.3	\$ 0.6

(In millions)	Statement of Comprehensive Income Location	Fiscal Year		
		June 2, 2018	June 3, 2017	May 28, 2016
Gain recognized on foreign currency forward contracts	Other expenses (income): Other, net	\$ 0.4	\$ (1.2)	\$ (0.7)

The gain recorded, net of income taxes, in Other comprehensive loss for the effective portion of designated derivatives was as follows for the periods presented below:

(In millions)	Fiscal Year		
	June 2, 2018	June 3, 2017	May 28, 2016
Interest rate swap	\$ 7.5	\$ 2.1	\$ —

Losses reclassified from Accumulated other comprehensive loss into earnings were \$0.3 million. There were no reclassifications required in fiscal 2017 and 2016.

12. Warranties, Guarantees and Contingencies

Product Warranties

The company provides coverage to the end-user for parts and labor on products sold under its warranty policy and for other product-related matters. The standard length of warranty is 12 years. However, this varies depending on the product classification. The company does not sell or otherwise issue warranties or warranty extensions as stand-alone products. Reserves have been established for various costs associated with the company's warranty program. General warranty reserves are based on historical claims experience and other currently available information and are periodically adjusted for business levels and other factors. Specific reserves are established once an issue is identified with the amounts for such reserves based on the estimated cost of correction. Changes in the warranty reserve for the stated periods were as follows:

(In millions)	2018	2017	2016
Accrual balance, beginning	\$ 47.7	\$ 43.9	\$ 39.3
Accrual for warranty matters	22.1	22.8	25.5
Settlements	(18.3)	(19.0)	(20.9)
Accrual balance, ending	\$ 51.5	\$ 47.7	\$ 43.9

Other Guarantees

The company is periodically required to provide performance bonds in order to conduct business with certain customers. These arrangements are common and generally have terms ranging between one and three years. The bonds are required to provide assurances to customers that the products and services they have purchased will be installed and/or provided properly and without damage to their facilities. The performance bonds are provided by various bonding agencies and the company is ultimately liable for claims that may occur against them. As of June 2, 2018, the company had a maximum financial exposure related to performance bonds of approximately \$9.5 million. The company has no history of claims, nor is it aware of circumstances that would require it to perform under any of these arrangements and believes that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not significantly affect the company's financial statements. Accordingly, no liability has been recorded as of June 2, 2018 and June 3, 2017.

The company periodically enters into agreements in the normal course of business that may include indemnification clauses regarding patent or trademark infringement and service losses. Service losses represent all direct or consequential loss, liability, damages, costs and expenses incurred by the customer or others resulting from services rendered by the company, the dealer, or certain sub-contractors, due to a proven negligent act. The company has no history of claims, nor is it aware of circumstances that would require it to perform under these arrangements and believes that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not significantly affect the company's financial statements. Accordingly, no liability has been recorded as of June 2, 2018 and June 3, 2017.

The company has entered into standby letter of credit arrangements for the purpose of protecting various insurance companies and lessors against default on insurance premium and lease payments. As of June 2, 2018, the company had a maximum financial exposure from these standby letters of credit of approximately \$8.2 million, all of which is considered usage against the company's revolving credit facility. The company has no history of claims, nor is it aware of circumstances that would require it to perform under any of these arrangements and believes that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not significantly affect the company's financial statements. Accordingly, no liability has been recorded as of June 2, 2018 and June 3, 2017.

Contingencies

The company is also involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation currently pending will not materially affect the company's Consolidated Financial Statements.

As of the end of fiscal 2018, outstanding commitments for future purchase obligations approximated \$93.5 million.

13. Operating Segments

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

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

The performance of the operating segments is evaluated by the company's management using various financial measures. The following is a summary of certain key financial measures for the respective fiscal years indicated:

(In millions)	2018	2017	2016
Net Sales:			
North American Furniture Solutions	\$ 1,284.4	\$ 1,276.6	\$ 1,269.4
ELA Furniture Solutions	434.5	385.5	412.6
Specialty	305.4	298.0	294.2
Consumer	356.9	318.1	288.7
Corporate	—	—	—
Total	\$ 2,381.2	\$ 2,278.2	\$ 2,264.9
Depreciation and Amortization:			
North American Furniture Solutions	\$ 33.4	\$ 28.3	\$ 24.5
ELA Furniture Solutions	10.2	9.4	9.1
Specialty	10.5	9.4	9.4
Consumer	12.1	10.2	8.6
Corporate	0.7	1.6	1.4
Total	\$ 66.9	\$ 58.9	\$ 53.0
Operating Earnings (Losses):			
North American Furniture Solutions	\$ 166.3	\$ 176.0	\$ 187.6
ELA Furniture Solutions	35.5	35.9	40.2
Specialty	8.9	8.1	15.0
Consumer	13.9	4.8	8.1
Corporate	(47.1)	(34.0)	(39.4)
Total	\$ 177.5	\$ 190.8	\$ 211.5
Capital Expenditures:			
North American Furniture Solutions	\$ 38.9	\$ 46.2	\$ 56.1
ELA Furniture Solutions	11.4	8.5	15.0
Specialty	7.1	10.6	3.8
Consumer	13.2	22.0	10.2
Corporate	—	—	—
Total	\$ 70.6	\$ 87.3	\$ 85.1
Total Assets:			
North American Furniture Solutions	\$ 488.7	\$ 519.3	\$ 503.4
ELA Furniture Solutions	283.4	230.3	218.4
Specialty	188.7	172.2	175.6
Consumer	291.2	276.4	245.3
Corporate	227.5	108.1	92.4
Total	\$ 1,479.5	\$ 1,306.3	\$ 1,235.1
Goodwill:			
North American Furniture Solutions	\$ 133.2	\$ 133.5	\$ 133.5
ELA Furniture Solutions	40.0	40.1	40.9
Specialty	52.1	52.1	52.1
Consumer	78.8	78.8	78.8
Corporate	—	—	—
Total	\$ 304.1	\$ 304.5	\$ 305.3

The accounting policies of the reportable operating segments are the same as those of the company. Additionally, the company employs a methodology for allocating corporate costs and assets with the underlying objective of this methodology being to allocate corporate costs according to the relative usage of the underlying resources and to allocate corporate assets according to the relative expected benefit. The majority of the allocations for corporate expenses are based on relative net sales. However, certain corporate costs, generally considered the result of isolated business decisions, are not subject to allocation and are evaluated separately from the rest of the regular ongoing business operations.

The company's product offerings consist primarily of office furniture systems, seating, freestanding furniture, storage and casegoods. These product offerings are marketed, distributed and managed primarily as a group of similar products on an overall portfolio basis. The following is a summary of net sales estimated by product category for the respective fiscal years indicated:

(In millions)	2018	2017	2016
Net Sales:			
Systems	\$ 601.5	\$ 639.0	\$ 656.8
Seating	965.9	894.8	855.5
Freestanding and storage	465.1	428.8	456.9
Textiles	94.3	96.9	97.6
Other ⁽¹⁾	254.4	218.7	198.1
Total	\$ 2,381.2	\$ 2,278.2	\$ 2,264.9

(1) "Other" primarily consists of uncategorized product sales and service sales.

Sales by geographic area are based on the location of the customer. Long-lived assets consist of long-term assets of the company, excluding financial instruments, deferred tax assets and long-term intangibles. The following is a summary of geographic information for the respective fiscal years indicated. Individual foreign country information is not provided as none of the individual foreign countries in which the company operates are considered material for separate disclosure based on quantitative and qualitative considerations.

(In millions)	2018	2017	2016
Net Sales:			
United States	\$ 1,737.9	\$ 1,690.1	\$ 1,757.0
International	643.3	588.1	507.9
Total	\$ 2,381.2	\$ 2,278.2	\$ 2,264.9

Long-lived assets:

United States	\$ 349.3	\$ 328.6	\$ 254.8
International	50.5	45.3	48.1
Total	\$ 399.8	\$ 373.9	\$ 302.9

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 its 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.

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.

14. Accumulated Other Comprehensive Loss

The following table provides an analysis of the changes in accumulated other comprehensive loss for the years ended June 2, 2018, June 3, 2017 and May 28, 2016:

(In millions)	Year Ended		
	June 2, 2018	June 3, 2017	May 28, 2016
Cumulative translation adjustments at beginning of period	\$ (36.8)	\$ (29.6)	\$ (20.8)
Other comprehensive income (loss) before reclassifications (net of tax of \$-, \$- and (\$0.3))	2.7	(7.2)	(8.8)
Balance at end of period	(34.1)	(36.8)	(29.6)
Pension and other post-retirement benefit plans at beginning of period	(47.6)	(34.9)	(35.4)
Other comprehensive income (loss) before reclassifications (net of tax of (\$2.9), \$3.7 and (\$0.7))	5.3	(14.5)	(2.0)
Reclassification from accumulated other comprehensive income - Selling, general and administrative	4.2	2.2	3.2
Tax benefit	0.9	(0.4)	(0.7)
Net reclassifications	5.1	1.8	2.5
Net current period other comprehensive income	10.4	(12.7)	0.5
Balance at end of period	(37.2)	(47.6)	(34.9)
Interest rate swap agreement at beginning of period	2.1	—	—
Other comprehensive income before reclassifications (net of tax of (\$4.0), (\$1.2) and \$-)	7.5	2.1	—
Reclassification from accumulated other comprehensive income - Interest expense	0.3	—	—
Net reclassifications	0.3	—	—
Net current period other comprehensive income	7.8	2.1	—
Balance at end of period	9.9	2.1	—
Available-for-sale Securities at beginning of period	0.1	—	—
Other comprehensive income before reclassifications (net of tax of \$-, \$- and \$-)	—	0.1	—
Balance at end of period	0.1	0.1	—
Total accumulated other comprehensive loss	\$ (61.3)	\$ (82.2)	\$ (64.5)

15. Redeemable Noncontrolling Interests

Redeemable noncontrolling interests are reported on the Consolidated Balance Sheets in mezzanine equity within the caption Redeemable noncontrolling interests. The company recognizes changes to the redemption value of redeemable noncontrolling interests as they occur and adjusts the carrying value to equal the redemption value at the end of each reporting period subject to a "floor" amount that is equal to the fair value of the redeemable noncontrolling interests at the time they were originally recorded. The redemption amounts have been estimated based on the fair value of the subsidiary, determined based on a weighting of the discounted cash flow and market methods. This represents a level 3 fair value measurement.

Changes in the company's Redeemable noncontrolling interests for the years ended June 2, 2018 and June 3, 2017 are as follows:

(In millions)	Year Ended	
	June 2, 2018	June 3, 2017
Balance at beginning of period	\$ 24.6	\$ 27.0
Purchase of redeemable noncontrolling interests	(1.0)	(1.5)
Net income attributable to redeemable noncontrolling interests	0.6	0.2
Exercised options	0.1	—
Redemption value adjustment	6.2	(1.2)
Other adjustments	—	0.1
Balance at end of period	\$ 30.5	\$ 24.6

16. Restructuring and Impairment Activities

2018 Restructuring Expenses

North America Contract segment

During the first quarter of fiscal 2018, the company announced restructuring actions involving targeted workforce reductions primarily within the North American segment. These actions related to the company's cost savings initiatives and resulted in the recognition of restructuring expenses of \$1.4 million in the first quarter of fiscal 2018. The restructuring actions were completed, and final payments made in fiscal 2018.

During the second quarter of fiscal 2018, the company announced further restructuring actions involving targeted workforce reductions primarily within the North American segment. These actions related to the company's previously announced cost savings initiatives and resulted in the recognition of restructuring expenses of \$0.4 million in the second quarter of fiscal 2018. The restructuring actions were completed, and final payments made in fiscal 2018.

ELA segment

On March 14, 2018, the company announced a facilities consolidation plan related to its ELA segment. This impacted certain office and manufacturing facilities in the United Kingdom and China. It is currently contemplated that this plan will generate approximately \$4 million in annual cost reductions as part of the company's three-year cost savings initiatives.

The company recognized restructuring expenses of \$3.9 million of which \$2.4 million related to workforce reductions and \$1.5 million related to the exit and disposal activities as a result of consolidating the United Kingdom office and China manufacturing facilities. The company expects the ELA facilities consolidations to be completed by the first quarter of fiscal 2020. It is currently contemplated that this plan will incur an additional estimated \$2 million of future restructuring and related special charges.

The following table provides an analysis of the changes in ELA segment restructuring costs reserve for the fiscal year ended June 2, 2018

(In millions)	June 2, 2018		
	Severance and employee related expenses	Costs associated with exit and disposal activities	Total
Beginning Balance	\$ —	\$ —	\$ —
Restructuring expenses	2.4	1.5	3.9
Payments	(2.4)	(1.5)	(3.9)
Ending Balance	\$ —	\$ —	\$ —

2017 Restructuring and Impairment Charges

The company recognized asset impairment expense totaling \$7.1 million associated with the Nemschoff trade name for the fiscal year 2017. Forecasts developed during the fourth quarter of fiscal 2017 indicated future revenue and profitability no longer supported the value of the trade name intangible asset. The company also recognized restructuring expenses of \$5.4 million related to targeted workforce reductions within the North America, ELA, Specialty and Consumer segments. The restructuring actions were deemed to be complete at June 3, 2017 and final payments made in fiscal 2018.

These charges have been reflected separately as "Restructuring and impairment expenses" in the Consolidated Statements of Comprehensive Income and are included within Operating earnings for the North America, ELA, Specialty and Consumer segments within segment reporting in Note 13.

The following table provides an analysis of the changes in restructuring costs reserve for the fiscal year ended June 3, 2017:

(In millions)	June 2, 2018		June 3, 2017	
	Severance and employee related expenses		Severance and employee related expenses	
Beginning Balance	\$ 2.4	\$ 0.4		
Restructuring expenses	—	5.4		
Payments	(2.4)	(3.4)		
Ending Balance	\$ —	\$ 2.4		

17. Subsequent Event

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. The transaction is expected to close in the first quarter of fiscal 2019. As a result of the deal, the company will acquire a 48 percent ownership interest in MAARS for an estimated \$6 million in cash.

On June 7, 2018, Herman Miller Holdings Limited, a wholly owned subsidiary of the company entered into an agreement 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 acquired its 33 percent ownership interest in HAY for approximately \$66 million in cash. The company also acquired the rights to the HAY brand in North America under a long-term license agreement for approximately \$5 million in cash.

18. Quarterly Financial Data (Unaudited)

Set forth below is a summary of the quarterly operating results on a consolidated basis for the years ended June 2, 2018, June 3, 2017, and May 28, 2016.

(In millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2018 Net sales ⁽¹⁾	\$ 580.3	\$ 604.6	\$ 578.4	\$ 618.0
Gross margin ⁽¹⁾	216.9	222.1	205.8	228.3
Net earnings attributable to Herman Miller, Inc. ⁽¹⁾	33.1	33.5	29.8	31.8
Earnings per share-basic ⁽¹⁾	0.55	0.56	0.50	0.53
Earnings per share-diluted	0.55	0.55	0.49	0.53
2017 Net sales	\$ 598.6	\$ 577.5	\$ 524.9	\$ 577.2
Gross Margin ⁽¹⁾	230.0	218.0	195.5	220.9
Net earnings attributable to Herman Miller, Inc.	36.3	31.7	22.5	33.4
Earnings per share-basic ⁽¹⁾	0.61	0.53	0.38	0.56
Earnings per share-diluted	0.60	0.53	0.37	0.55
2016 Net sales	\$ 565.4	\$ 580.4	\$ 536.5	\$ 582.6
Gross margin	216.8	224.4	207.8	225.2
Net earnings attributable to Herman Miller, Inc. ⁽¹⁾	33.5	34.7	27.9	40.7
Earnings per share-basic	0.56	0.58	0.46	0.68
Earnings per share-diluted	0.56	0.57	0.46	0.67

⁽¹⁾ The sum of the quarters does not equal the annual balance reflected in the Consolidated Statements of Comprehensive Income due to rounding associated with the calculations on an individual quarter basis.

Management's Report on Internal Control over Financial Reporting

To the Board of Directors and Stockholders of Herman Miller, Inc.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f). The internal control over financial reporting at Herman Miller, Inc., is designed to provide reasonable assurance to our stakeholders that the financial statements of the company fairly represent its financial condition and results of operations.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect all misstatements. Further, because of changes in conditions, effectiveness of internal control over financial reporting may vary over time.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of June 2, 2018, based on the original framework in *Internal Control — Integrated Framework (2013 Framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management believes the company's internal control over financial reporting was effective as of June 2, 2018.

Ernst & Young LLP has issued an attestation report on the effectiveness of our internal control over financial reporting, which is included herein.

/s/ Brian C. Walker
Brian C. Walker
Chief Executive Officer

/s/ Jeffrey M. Stutz
Jeffrey M. Stutz
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Herman Miller, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Herman Miller, Inc. and subsidiaries' internal control over financial reporting as of June 2, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Herman Miller, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of June 2, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Herman Miller, Inc. and subsidiaries as of June 2, 2018 and June 3, 2017, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended June 2, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) of the Company and our report dated July 31, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Grand Rapids, Michigan
July 31, 2018

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Herman Miller, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Herman Miller, Inc. and subsidiaries (the Company) as of June 2, 2018 and June 3, 2017, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended June 2, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 2, 2018 and June 3, 2017, and the results of its operations and its cash flows for each of the three years in the period ended June 2, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 2, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated July 31, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002

Grand Rapids, Michigan

July 31, 2018

Item 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None

Item 9A CONTROLS AND PROCEDURES

- (a) Disclosure Controls and Procedures. Under the supervision and with the participation of management, the company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 2, 2018 and have concluded that as of that date, the company's disclosure controls and procedures were effective.
- (b) Management's Annual Report on Internal Control Over Financial Reporting and Attestation Report of the Independent Registered Public Accounting Firm. Refer to Item 8 for "Management's Report on Internal Control Over Financial Reporting." The effectiveness of the company's internal control over financial reporting has been audited by Ernst and Young LLP, an independent registered accounting firm, as stated in its report included in Item 8.
- (c) Changes in Internal Control Over Financial Reporting. There were no changes in the company's internal control over financial reporting during the fourth quarter ended June 2, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B OTHER INFORMATION

None

PART III

Item 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors, Executive Officers, Promoters and Control Persons

Information relating to directors and director nominees of the registrant is contained under the caption "Director and Executive Officer Information" in the company's definitive Proxy Statement, relating to the company's 2018 Annual Meeting of Stockholders, and the information within that section is incorporated by reference. Information relating to Executive Officers of the company is included in Part I hereof entitled "Executive Officers of the Registrant."

Compliance with Section 16(a) of the Exchange Act

Information relating to compliance with Section 16(a) of the Exchange Act is contained under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the company's definitive Proxy Statement, relating to the company's 2018 Annual Meeting of Stockholders, and the information within that section is incorporated by reference.

Code of Ethics

The company has adopted a Code of Conduct that serves as the code of ethics for the executive officers and senior financial officers and as the code of business conduct for all directors and employees of the registrant. This code is made available free of charge through the "Investors" section of the company's internet website at www.hermanmiller.com. Any amendments to, or waivers from, a provision of this code also will be posted to the company's internet website.

Corporate Governance

Information relating to the identification of the audit committee, audit committee financial experts, and director nomination procedures of the registrant is contained under the captions "Board Committees" and "Corporate Governance and Board Matters — Director Nominations" in the company's definitive Proxy Statement, relating to the company's 2018 Annual Meeting of Stockholders, and the information within these sections is incorporated by reference.

Item 11 EXECUTIVE COMPENSATION

Information relating to management remuneration is contained under the captions "Compensation Discussion and Analysis," "Summary Compensation Table," "Grants of Plan-Based Awards," "Outstanding Equity Awards at Fiscal Year-End," "Option Exercises and Stock Vested," "Pension Benefits," "Nonqualified Deferred Compensation," "Potential Payments Upon Termination, Death, Disability, Retirement or Change in Control," "Director Compensation," "Director Compensation Table," and "Compensation Committee Interlocks and Insider Participation" in the company's definitive Proxy Statement, relating to the company's 2018 Annual Meeting of Stockholders, and the information within these sections is incorporated by reference. The information under the caption "Compensation Committee Report" is incorporated by reference, however, such information is not deemed filed with the Commission.

Item 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The sections entitled "Voting Securities and Principal Stockholders," "Director and Executive Officer Information," and "Equity Compensation Plan Information" in the definitive Proxy Statement, relating to the company's 2018 Annual Meeting of Stockholders, and the information within these sections is incorporated by reference.

Item 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information concerning certain relationships and related transactions contained under the captions "Related Party Transactions," and "Corporate Governance and Board Matters — Determination of Independence of Board Members" in the definitive Proxy Statement, relating to the company's 2018 Annual Meeting of Stockholders and the information within these sections is incorporated by reference.

Item 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning the payments to our principal accountants and the services provided by our principal accounting firm set forth under the caption "Disclosure of Fees Paid to Independent Auditors" in the Definitive Proxy Statement, relating to the company's 2018 Annual Meeting of Stockholders, and the information within that section is incorporated by reference.

PART IV

Item 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

(a) The following documents are filed as a part of this report:

1. Financial Statements

The following Consolidated Financial Statements of the company are included in this Annual Report on Form 10-K on the pages noted:

	Page Number in this Form 10-K
Consolidated Statements of Comprehensive Income	<u>45</u>
Consolidated Balance Sheets	<u>46</u>
Consolidated Statements of Stockholders' Equity	<u>47</u>
Consolidated Statements of Cash Flows	<u>48</u>
Notes to the Consolidated Financial Statements	<u>49</u>
Management's Report on Internal Control over Financial Reporting	<u>83</u>
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	<u>84</u>
Report of Independent Registered Public Accounting Firm on Financial Statements	<u>85</u>

2. Financial Statement Schedule

The following financial statement schedule is included in this Annual Report on Form 10-K on the pages noted:

	Page Number in this Form 10-K
Schedule II- Valuation and Qualifying Accounts and Reserves for the Years Ended June 2, 2018, June 3, 2017 and May 28, 2016	<u>92</u>

All other schedules required by Form 10-K Annual Report have been omitted because they were not applicable, included in the Notes to the Consolidated Financial Statements, or otherwise not required under instructions contained in Regulation S-X.

3. Exhibits

Reference is made to the Exhibit Index which is included on pages 89-90.

Item 16 FORM 10-K SUMMARY

None

EXHIBIT INDEX

- (3) Articles of Incorporation and Bylaws
- (a) [Restated Articles of Incorporation, dated October 4, 2013, is incorporated by reference from Exhibit 3\(a\) of Registrant's 2014 Form 10-K Annual Report \(Commission File No. 001-15141\).](#)
 - (b) [Amended and Restated Bylaws, dated July 13, 2015, is incorporated by reference from Exhibit 3 of the Registrant's Form 8-K dated July 17, 2015 \(Commission File No. 001-15141\).](#)
- (4) Instruments Defining the Rights of Security Holders
- (a) Specimen copy of Herman Miller, Inc., common stock is incorporated by reference from Exhibit 4(a) of Registrant's 1981 Form 10-K Annual Report (Commission File No. 001-15141).
 - (b) Other instruments which define the rights of holders of long-term debt individually represent debt of less than 10% of total assets. In accordance with item 601(b)(4)(iii)(A) of regulation S-K, the Registrant agrees to furnish to the Commission copies of such agreements upon request.
 - (c) [Dividend Reinvestment Plan for Shareholders of Herman Miller, Inc., dated January 6, 1997, is incorporated by reference from Exhibit 4\(d\) of the Registrant's 1997 Form 10-K Annual Report \(Commission File No. 000-05813\).](#)
 - (d) [Third Amended and Restated Credit agreement dated as of July 21, 2014 among Herman Miller, Inc. and various lenders is incorporated by reference from Exhibit 10.1 of the Registrant's Current Report on Form 8-K dated July 22, 2014 \(Commission File No. 001-15141\).](#)
- (10) Material Contracts
- (a) [Herman Miller, Inc. 2011 Long-Term Incentive Plan is incorporated by reference from Appendix I of the Registrant's Definitive Proxy Statement dated August 26, 2014, as amended, filed with the Commission as of August 26, 2014 \(Commission File No. 001-15141\).](#)⁽¹⁾
 - (b) [Herman Miller, Inc. Nonemployee Officer and Director Deferred Compensation Plan is incorporated by reference to Exhibit 10\(b\) of the Registrant's Report on Form 10-K dated July 26, 2016 \(Commission File No. 001-15141\).](#)⁽¹⁾
 - (c) [Form of Change in Control Agreement of the Registrant and James E. Christenson is incorporated by reference from Exhibit 10\(c\) of Registrant's June 3, 2017 Form 10-K Annual Report \(Commission File No. 001-15141\).](#)⁽¹⁾
 - (d) [Herman Miller, Inc. Executive Equalization Retirement Plan is incorporated by reference from Exhibit 10 \(d\) of the Registrant's Form 10-K dated July 28, 2015 \(Commission File No. 001-15141\).](#)⁽¹⁾
 - (e) [Herman Miller, Inc. Executive Incentive Cash Bonus Plan dated April 24, 2006 is incorporated by reference from Exhibit 10\(e\) of Registrant's June 3, 2017 Form 10-K \(Commission File No. 001-15141\).](#)⁽¹⁾
 - (f) [Form of Herman Miller, Inc., Long-Term Incentive Plan Stock Option Agreement is incorporated by reference to Exhibit 10\(f\) of the Registrant's July 26, 2016 Form 10-K \(Commission File No. 001-15141\).](#)⁽¹⁾
 - (g) [Form of Herman Miller, Inc., Long-Term Incentive Restricted Stock Unit Award is incorporated by reference to Exhibit 10\(g\) of the Registrant's July 26, 2016 Form 10-K \(Commission File No. 001-15141\).](#)⁽¹⁾
 - (h) [Form of Herman Miller, Inc., Long-Term Incentive Performance Stock Unit EBITDA Award is incorporated by reference from Exhibit 10\(h\) of the Registrant's June 3, 2017 Form 10-K \(Commission File No. 001-15141\).](#)⁽¹⁾
 - (i) [Second Amendment to the Herman Miller, Inc. 2011 Long-Term Incentive Plan is incorporated by reference to Exhibit 10\(i\) of the Registrant's July 26, 2016 Form 10-K \(Commission File No. 001-15141\).](#)⁽¹⁾
 - (j) [Form of Herman Miller, Inc. 2011 Long-Term Incentive Plan Performance Share Unit Award is incorporated by reference to Exhibit 10\(j\) of the Registrant's July 26, 2016 Form 10-K \(Commission File No. 001-15141\).](#)⁽¹⁾
 - (k) [Employment Agreement between John Edelman and Design Within Reach is incorporated by reference from Exhibit 10\(b\) of the Registrant's Form 10-Q dated October 8, 2014 \(Commission File No. 001-15141\).](#)⁽¹⁾

- (l) [Employment Agreement between John McPhee and Design Within Reach is incorporated by reference from Exhibit 10\(c\) of the Registrant's Form 10-Q dated October 8, 2014 \(Commission File No. 001-15141\).](#)⁽¹⁾
- (m) [Stockholders' Agreement between HM Springboard, Inc., Herman Miller, Inc., John Edelman, and John McPhee is incorporated by reference from Exhibit 10\(d\) of the Registrant's Form 10-Q dated October 8, 2014 \(Commission File No. 001-15141\).](#)⁽¹⁾⁽²⁾
- (n) [HM Springboard, Inc. Stock Option Plan is incorporated by reference from Exhibit 10\(e\) of the Registrant's Form 10-Q dated October 8, 2014 \(Commission File No. 001-15141\).](#)⁽¹⁾⁽²⁾
- (o) [Third Amendment to the Herman Miller, Inc. 2011 Long-Term Incentive Plan is incorporated by reference to Exhibit 10\(o\) of the Registrant's July 26, 2016 Form 10-K \(Commission File No. 001-15141\).](#)⁽¹⁾
- (p) [Form of Herman Miller, Inc. 2011 Long-Term Incentive Plan Conditional Stock Option Award is incorporated by reference from Exhibit 10 \(p\) of the Registrant's July 28, 2015 Form 10-K \(Commission File No. 001-15141\).](#)⁽¹⁾
- (q) [Trust Under the Herman Miller, Inc. Nonemployee Officer and Director Compensation Plan is incorporated by reference to Exhibit 10\(q\) of the Registrant's July 26, 2016 Form 10-K \(Commission File No. 001-15141\).](#)⁽¹⁾
- (r) [Retirement Agreement dated February 5, 2018 between Herman Miller, Inc. and Brian C. Walker, Chief Executive Officer, is incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q dated April 11, 2018 \(Commission File No. 001-15141\).](#)⁽¹⁾
- (s) [Covenant Agreement dated February 5, 2018 between Herman Miller, Inc. and Brian C. Walker, Chief Executive Officer, is incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q dated April 11, 2018 \(Commission File No. 001-15141\).](#)⁽¹⁾
- (t) [Form of Retention Agreement dated February 5, 2018 between Herman Miller, Inc. and John Edelman, Steve Gane, Jeremy Hocking, Timothy Lopez, and John McPhee.](#)⁽¹⁾
- (u) [Form of Retention Agreement between Herman Miller, Inc. and Jeffrey M. Stutz, Gregory J. Bylsma, Andrew J. Lock, and B. Ben Watson is incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K dated February 5, 2018 \(Commission File No. 001-15141\).](#)⁽¹⁾
- (v) [The Share Purchase agreement dated June 7, 2018 between Herman Miller Holdings Limited, Nine United A/S and Holdingselskabet af 1/7 2007 ApS.](#)⁽¹⁾

(21) [Subsidiaries](#)

(23)(a) [Consent of Independent Registered Public Accounting Firm](#)

(24) [Power of Attorney \(included on the signature page to this Registration Statement\)](#)

(31)(a) [Certificate of the Chief Executive Officer of Herman Miller, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

(31)(b) [Certificate of the Chief Financial Officer of Herman Miller, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

(32)(a) [Certificate of the Chief Executive Officer of Herman Miller, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

(32)(b) [Certificate of the Chief Financial Officer of Herman Miller, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

⁽¹⁾ Denotes compensatory plan or arrangement.

⁽²⁾ Subsequent to the agreement, the legal name of the company was changed from HM Springboard, Inc. to Herman Miller Consumer Holdings, Inc.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HERMAN MILLER, INC.

By /s/ Jeffrey M. Stutz
Jeffrey M. Stutz
Chief Financial Officer (Principal Accounting Officer
and Duly Authorized Signatory for Registrant)

Date: July 31, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on, July 31, 2018 by the following persons on behalf of the Registrant in the capacities indicated.

/s/ Michael A. Volkema
Michael A. Volkema
(Chairman of the Board)

/s/ Lisa Kro
Lisa Kro
(Director)

/s/ David A. Brandon
David A. Brandon
(Director)

/s/ Mary Vermeer Andringa
Mary Vermeer Andringa
(Director)

/s/ Douglas D. French
Douglas D. French
(Director)

/s/ John R. Hoke III
John R. Hoke III
(Director)

/s/ Heidi Manheimer
Heidi Manheimer
(Director)

/s/ J. Barry Griswell
J. Barry Griswell
(Director)

/s/ Brenda Freeman
Brenda Freeman (Director)

/s/ Brian C. Walker
Brian C. Walker
(President, Chief Executive Officer, and Director)

/s/ Jeffrey M. Stutz
Jeffrey M. Stutz
(Chief Financial Officer and Principal Accounting Officer)

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
(In millions)

Column A	Column B	Column C	Column D	Column E
Description	Balance at beginning of period	Charges to expenses or net sales	Deductions ⁽³⁾	Balance at end of period
Year ended June 2, 2018:				
Accounts receivable allowances — uncollectible accounts ⁽¹⁾	\$ 2.3	\$ 0.6	\$ (0.5)	\$ 2.4
Accounts receivable allowances — credit memo ⁽²⁾	\$ 0.4	\$ 0.1	\$ —	\$ 0.5
Allowance for possible losses on notes receivable	\$ 0.9	\$ (0.5)	\$ —	\$ 0.4
Valuation allowance for deferred tax asset	\$ 10.0	\$ 0.5	\$ (0.2)	\$ 10.3
Year ended June 3, 2017:				
Accounts receivable allowances — uncollectible accounts ⁽¹⁾	\$ 3.4	\$ —	\$ (1.1)	\$ 2.3
Accounts receivable allowances — credit memo ⁽²⁾	\$ 0.4	\$ —	\$ —	\$ 0.4
Allowance for possible losses on notes receivable	\$ 0.9	\$ —	\$ —	\$ 0.9
Valuation allowance for deferred tax asset	\$ 10.6	\$ (0.6)	\$ —	\$ 10.0
Year ended May 28, 2016:				
Accounts receivable allowances — uncollectible accounts ⁽¹⁾	\$ 2.4	\$ 2.3	\$ (1.3)	\$ 3.4
Accounts receivable allowances — credit memo ⁽²⁾	\$ 0.4	\$ —	\$ —	\$ 0.4
Allowance for possible losses on notes receivable	\$ 1.0	\$ (0.1)	\$ —	\$ 0.9
Valuation allowance for deferred tax asset	\$ 11.1	\$ (1.5)	\$ 1.0	\$ 10.6

(1) Activity under the "Charges to expense or net sales" column are recorded within selling, general and administrative expenses.

(2) Activity under the "Charges to expenses or net sales" column are recorded within net sales.

(3) Represents amounts written off, net of recoveries and other adjustments. Includes effects of foreign translation.

July 18, 2018

Dear _____ :

As you know, the Board of Directors of Herman Miller, Inc. ("Herman Miller") is currently searching for a new CEO. We understand that this transition creates a period of uncertainty for you, and that your ongoing engagement with the rest of the leadership team has never been more important. In addition, we want you to know that it is our sincere desire that you remain a key executive at the company. In recognition of this desire and the important role you have on the leadership team, we are offering you the following enhanced incentives:

- A cash bonus payment matching ("the match") the actual bonus percentage you achieve for FY18, subject to a maximum payout amount of the 250% (inclusive of the match) of your annual target bonus, which will be paid 50% on the date that FY18 annual bonuses are paid and 50% on the last pay period in December 2018. Your right to this cash bonus award is subject to your being employed by Herman Miller on the dates payments are made and the successful transition of the CEO position from Brian Walker to a new CEO as solely determined by the Herman Miller Board of Directors; and
- A restricted stock unit ("RSU") grant with a value equal to 100% of your base salary in effect on the grant date, which will cliff vest on the second anniversary of the grant date, provided that you are employed by Herman Miller or one of its subsidiaries on such date, except as provided below. The number of units subject to the RSU grant will be determined by dividing your base salary by the closing price of Herman Miller's stock on the grant date.

In the event that you would voluntarily leave the Company or the Company would ask you to leave for cause, then you would not be able to receive the above enhancements.

For purposes of this agreement, "cause" means termination of your employment by Herman Miller due to your: (i) commission of a felony; (ii) serious misconduct in the performance or non-performance of your responsibilities to Herman Miller (e.g., gross negligence, willful misconduct, gross insubordination or unethical conduct) or (iii) violation of any material condition of employment with Herman Miller. For purposes of this agreement "good reason" means your termination of employment with Herman Miller after (a) a material reduction in your authority, duties or responsibilities and (b) a material reduction in your total compensation opportunity (sum of base salary, target bonus and grant date fair value of annual target equity grants), but only if you have provided Herman Miller with written notice of such intent to terminate for cause within 30 days after such reductions, and Herman Miller does not cure within 30 days following receipt of such notice. Whether or not your employment has been terminated for cause or may be terminated for good reason shall be determined in the sole discretion of the Board of Directors of Herman Miller, after providing you with an opportunity to be heard by the Board.

Subject to the above conditions and requirements, if you are terminated by the Company without cause or leave the Company for good reason you are entitled to receive (a) the cash bonus payment on the date or dates otherwise set forth above and (b) accelerated vesting of the RSU grant described herein. In the above circumstances, you will be asked to sign a general release within 60 days of the event. If you do not sign the release or you revoke the release, then you would not be entitled to either of the above enhancements.

Notwithstanding the foregoing, if you are a "specified employee" as defined in Section 409A(a)(3)(B)(i) of the Internal Revenue Code, any of the incentives that constitute nonqualified deferred compensation within the meaning of Section 409A and that have payment triggered by your termination of employment will be delayed to the date that is 6 months and one day after your termination of employment. The determination of whether, and the extent to which, any of the payments to be made to you hereunder are nonqualified deferred compensation shall be made after the application of all applicable exclusions under Treasury Reg. § 1.409A-1(b)(9).

This letter does not confer upon you any right to continue in the employment of Herman Miller for any period or interfere with or otherwise restrict in any way the rights of Herman Miller, or you to terminate your employment at any time for any reason whatsoever, with or without cause.

This letter does not impact any other agreement, arrangement or plan of Herman Miller which provides for severance to be paid upon termination of employment. You remain eligible for the salary continuation policy in effect at the time of termination.

Please indicate your acceptance of this letter by returning a signed copy of this letter to my attention via .pdf at mike_volkema@hermanmiller.com. In addition, I want to, again, thank you for your commitment to the Company and your continued leadership.

Very truly yours,

Michael A. Volkema,
Chairman of the Board

AGREED TO AND ACCEPTED

I hereby agree and accept the provisions of this letter agreement.

Name: _____

Date: _____

Share Purchase Agreement

Project Erann

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2100 Copenhagen
Denmark

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Værkmestergade 2
8000 Aarhus Denmark
Denmark

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Suite 2H08
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STRICTLY CONFIDENTIAL

Our ref. 315314 - JAS

SHARE PURCHASE AGREEMENT

TABLE OF CONTENT

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List of schedules:

- Schedule 2.2 List of shareholders
 - Schedule 2.3 Group structure
 - Schedule 4.2.1 Approval of the Transaction from the Company's board of directors
 - Schedule 4.2.2 Register of shareholders of the Company
 - Schedule 4.2.3 Confirmation from the Sellers regarding possession of corporate documents
 - Schedule 4.2.4 Letter of resignation from the board of directors (Mette Hay)
 - Schedule 4.2.5 Exclusive license agreement between the Company and Herman Miller Inc.
 - Schedule 4.2.6 Shareholders' Agreement
 - Schedule 4.2.7 Statement from Rolf Hay regarding termination of bonus
 - Schedule 4.2.8 Documentation of Nine United's payment of the inter- company loan
 - Schedule 4.3.1 Approval of the Transaction from the Purchaser's board of directors
 - Schedule 4.3.2 Documentation of the Purchaser's payment of the Purchase Price
 - Schedule 5.1.1 Articles of association (in agreed form)
 - Schedule 5.4.1 Post Closing activities
 - Schedule 6.1 Due Diligence Documentation
 - Schedule 7.1 Sellers' Representations and Warranties
 - Schedule 12.1.1 Joint taxation
-

SHARE PURCHASE AGREEMENT

On 7 June 2018 (the "**Effective Date**"), on one side

Nine United A/S

Company reg. no. (CVR) 25 93 44 58

Havnen 1

8700 Horsens Denmark

(hereinafter the "**Nine United**")

Holdingselskabet af 1/7 2007 ApS

Company reg. no. 30 70 87 17

Baunegardsvej 57

2900 Hellerup Denmark

(hereinafter "**Holdingselskabet**")

(Nine United and Holdingselskabet collectively the "**Sellers**" and separately a/the "**Seller**")

and the other side

Herman Miller Holdings Limited Corporation Registration No. 7200056 5th Floor, 9-10 Market Place

London, WI W 8AQ United Kingdom

(hereinafter the "**Purchaser**")

have entered into the following share purchase agreement regarding the transfer of shares in Nine United Denmark A/S, company reg. no. (CVR) 26 79 99 45, to the Purchaser on the terms and conditions set out below:

1. **Definitions, schedules and interpretation**

1. For the purposes of this Agreement, the following terms and expressions have the following meanings:

1. **Agreement** means this share purchase agreement and its Schedules.

2. **Annual Reports** mean the annual reports of the Companies for the financial years 2014/15 - 2016/17 to the extent such accounts have been prepared.

3. **Banking Day** means a day where the banks in Copenhagen and London are generally open for the public for ordinary banking business (other than for internet banking only)

4. **Breach** means in relation to (i) the Sellers' Representations and Warranties; that one of the Sellers' Representations and Warranties turns out to be incorrect or not fulfilled, (ii) the Sellers' Specific Indemnities; that an event, Claim, Loss or the like covered by one of the Sellers' Specific Indemnities occurs, (iii) the Purchaser's Representations and Warranties; that one of the Purchaser's Representations and Warranties turns out to be incorrect or not fulfilled, or (iv) other provisions in the Agreement; any other failure to meet the obligations of a Party under the Agreement .
 5. **Claim** means a claim for indemnification by either Party against the other Party resulting from a Breach.
 6. **Claim Notice** has the meaning set forth in Clause 10 .5.1.
 7. **Clause** means a clause included in this Agreement.
 8. **Closing** means the signing and completion of the Transaction through the Parties' exchange of their respective deliveries and fulfilment of their respective obligations as set out in Clause 4, i.e. the Effective Date.
 9. **Closing Date** means the Effective Date.
 10. **Companies** means the Company and its following subsidiaries:
 - Nine United Norway AS, company reg. no. 994 085 522 (org. no.), Josefines gate 23, 0351 Oslo, Norway (of which the Company owns seventy (70)% of the share capital); and
 - Nine United Studio UK Ltd., company reg. no. 08109344, 34 Queen Annes Gate, London, SW1H 9AB, England.
 11. **Company** means Nine United Denmark A/S, company reg. no. (CVR) 26 79 99 45, Havnen 1, 8700 Horsens, Denmark.
 12. **Confidential Information** has the meaning set forth in Clause 12.6 .1.
 13. **Contract** means any contract, agreement, binding arrangement or commitment, to which any of the Companies is a party.
 14. **Corporate Documents** means memorandum of association, articles of association, rules of procedure for the board of directors and any similar corporate documents.
 15. **DKK** means Danish Kroner, the lawful currency of Denmark.
 16. **Due Diligence Documentation** means the material listed in Schedule 6.1 with accompanying USB stick.
 17. **Effective Date** means 7 June 2018.
 18. **Fundamental Representations and Warranties** mean the Sellers' Representations and Warranties specified in
-

clauses 1 (Matters relating to company law; Capacity) and 2 (The Shares) of Schedule 7.1.

19. **Governmental Authority** means any state, government, government department, ministry, commission, council, board, bureau, agency, court, municipality, district or other judicial, administrative, regulatory or legislative authority in Denmark, the European Union, or any other jurisdiction in which the Companies carry on its business or activities.
 20. **Intellectual Property Rights** and **IPR** mean patents, utility models, trademarks (registered or unregistered), other business logos, domain names and design rights, know-how, trade secrets and other intellectual property rights owned or used by the Companies.
 21. **Interest** means an annual rate of interest of 1.5 percentage points above 3 month CIBOR as published by the Nasdaq Copenhagen A/S at 11: 00 (CET) on the Effective Date calculated on the basis of the actual number of days elapsed and 365 days in the year.
 22. **Key Employees** means the following employees: Henrik Ellebcek Steensgaard, Rolf Hay, Mette Hay, Jesper Langballe, Mette Langkilde, Dan Nielsen, Susanne Ostergaard, Trine Thomsen, Jan Jensen and Anne-Sofie Mortensen.
 23. **Leakage** means, except for any Permitted Leakage, any dividend, other payment, other financial advantage or distribution (whether in cash or in kind) declared, paid or made by the Companies to or for the benefit of the Sellers and/or any of Sellers' Related Parties.
 24. **Loss** means any documented loss, claim, liability, cost or expense recoverable under the laws of Denmark, except for indirect and/or consequential losses, e.g. loss of goodwill and loss of profit etc. However, losses for the Purchaser due to the Companies suffering losses that would normally be considered indirect and/or consequential losses for the Companies (e.g. loss of the Companies' goodwill and loss of profit), including reasonable external costs and expenses related to the recovery of such loss, shall be considered as a direct loss.
 25. **Maximum Limit** has the meaning set forth in Clause 10.3.2.
 26. **Minimum Limit** has the meaning set forth in Clause 10.3.1.
 27. **Party** means the Purchaser and/or the Sellers, and the **Parties** means the Purchaser and the Sellers collectively.
 28. **Permitted Leakage** means distribution of dividends from the Company of DKK 110,000,000 to the Sellers and any
-

Leakage paid in the ordinary course of business of the Companies (e.g. payment of taxes due to mandatory joint taxation, payment of salaries, payment of rent, payment pursuant to commercial agreements, etc.). As of 6 June 2018, the general meeting of the Company has resolved to distribute dividends of an amount of DKK 110,000,000 of which approx. DKK 69,000,000 has been paid out to the Sellers. The Parties have agreed that the remaining amount of dividends (DKK 41,000,000) shall be transferred to the Sellers after the Effective Date once the TAK License Payment has been paid to the Company.

29. **Person** means any individual (natural person), corporation, company, partnership, firm, association, trust, incorporated or unincorporated organization or other legal entity as well as any Governmental Authority.
 30. **Purchase Price** means DKK 423,500,000.
 31. **Purchaser** means Herman Miller Holdings Limited, Corporation registration No. 7200056, 5th Floor, 9-10 Market Place, London, W1W 8AQ, United Kingdom.
 32. **Purchaser's Representations and Warranties** means the representations and warranties contained in Clause 9.
 33. **Related Parties** means Persons that are related parties (*In Danish "nærstående"*) pursuant to the definition in section 2 of the Danish Insolvency Act in force at any time or another similar provision.
 34. **Release Date** has the meaning set forth in Clause 10 .9.1.
 35. **Retained Amount** has the meaning set forth in Clause 10 .9.1.
 36. **Schedules** means the schedules of this Agreement.
 37. **Sellers** mean Nine United A/ S, Company reg. no. (CVR) 25 93 44 58, Havnen 1, 8700 Horsens, Denmark, and Holdingselskabet af 1/7 2007 ApS, Company reg. no. (CVR) 30 70 87 17, Baunegardsvej 57, 2900 Hellerup, Denmark.
 38. **Sellers' Bank Accounts** means (i) in respect of Nine United a bank account with Nordea Bank Denmark (IB AN: DK482005655757866) and (ii) in respect of Holdingselskabet a bank account with Nordea Bank Denmark (IBAN : DK72 20006272 222310).
 39. **Sellers' Representations and Warranties** means the representations and warranties contained in Schedule 7.1.
 40. **Sellers' Specific Indemnities** mean the indemnities contained in Clause 8.
 41. **Sellers' Ultimate Owners** mean (i) Troels Holch Povlsen in respect of Nine United and (ii) Rolf Hay in respect of Holdingselskabet.
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1.1.4.2 **Shareholders' Agreement** means the shareholders' agreement entered into by and between the Sellers and the Purchaser regarding their mutual holdings of shares in the Company attached as Schedule 4.2.6.

1. **Shares** means the fully paid-up shares in the Company of a nominal value of DKK 1,485,000 and equal to thirty-three (33)% of all of the Company's issued and outstanding share capital. The Parties acknowledge and agree that (i) Nine United sells shares in the Company of a nominal value of DKK 1,170,000 and equal to twenty-six (26)% of all of the Company's issued and outstanding share capital to the Purchaser, (ii) Holdingselskabet sells shares in the Company of a nominal value of DKK 315,000 and equal to seven (7)% of all of the Company's issued and outstanding share capital to the Purchaser and (iii) the Purchase Price being paid by the Purchaser to the Sellers, cf. Clause 3.1, shall be divided pro rata to the shares sold by each of the Sellers (out of all Shares sold by the Sellers).

2. **TAK** means Nine United TAK Co., Ltd., Corporate registration No. 91310000MA1K34BX43, Room 301-57, Floor 3, Building 1, No.38, Debao Road, Pilot Free Trade Zone, China (Shanghai).

3. **TAK License Agreement** means the license agreement dated 7 June 2018 between TAK and the Company.

4. **TAK License Payment** means the license payment of DKK 15,000,000 that falls due 10 Banking Days after 7 June 2018 from TAK to the Company under the TAK License Agreement.

5. **Taxes** means all direct and indirect taxes, whether contingent or actual, such as income tax, company tax, VAT and turnover tax and social benefits and all similar taxes, duties and fees.

6. **Third Party Rights** means liens, encumbrances, charges, pre-emption rights, options to purchase, other options, owners' rights as well as any other right, actual or potential, of third party (including any other party than the authorised rights owner)

7. **Tipping Basket** has the meaning set forth in Clause 10.3.1.

8. **Transaction** means the transfer of the Shares from the Sellers to the Purchaser as contemplated by the Agreement.

1. The Schedules attached to the Agreement form an integral part of the Agreement.

2. Each Party has participated in the negotiation and drawing up of the Agreement. None of the Parties is regarded as a drafter for the purposes of interpreting the Agreement.

2. **The subject-matter of the Agreement and Effective Date**

1. With effect from the Effective Date, the Sellers sell the Shares to the Purchaser, and the Purchaser acquires the Shares from the Sellers on the terms and conditions set out in this Agreement.

2. The Shares amount to thirty-three (33)% of the total share capital of the Company and are transferred to the Purchaser free and clear of all Third Party Rights. The remaining shares in the Company are owned by the Sellers, as shown in the list of shareholders attached as **Schedule 2.2**.

3. The Company is part of the group structure shown in the attached **Schedule 2.3**.

4. As of the Effective Date, the Purchaser shall be entitled to all benefits, and to exercise all rights, attached or accruing to the Shares including, without limitation, the right to receive all dividends, distributions or any return of capital declared, paid or made by the Company on or after the Effective Date.

3. **The Purchase Price and its payment**

1. In return for the sale of the Shares, the Purchaser shall pay to the Sellers the Purchase Price

4. **Closing of the Transaction**

1. Completion of the Transaction ("**Closing**") shall take place electronically (via e mail) and simultaneously with the Parties' execution of the Agreement, i.e. at the Effective Date.

2. At the Effective Date, the Sellers have delivered the following documents against the Purchaser's simultaneous fulfillment of all its obligations set forth in Clause 4.3:

1. Approval of the Transaction from the board of directors of the Company, such approval attached as **Schedule 4. 2.1**.

2. The Company's register of shareholders in which the Purchaser had been registered as the owner of the Shares free of any Third Party Rights, such register of shareholders attached as **Schedule 4.2.2**.

3. Confirmation from the Sellers stating that the minutes of general meetings and board meetings and audit reports of the Companies are in the Companies' possession, such confirmation attached as **Schedule 4. 2.3**.

4. Statement from Mette Hay stating that she retires as board member of the Company and does not have any claims against the Company as a result of her directorship, such statement attached as **Schedule 4.2.4**.

5. Executed version of an exclusive license agreement between the Company and Herman Miller, Inc. signed by the legal representatives of the Company, such license agreement attached as **Schedule 4. 2.5**.

6. Executed version of the Shareholders' Agreement signed by the legal representatives of the Sellers and the Sellers' Ultimate Owners, such Shareholders' Agreement attached as **Schedule 4.2.6**.

7. Statement from Rolf Hay confirming that he is not entitled to any bonus payments from the Companies and that any previous bonus agreements entered into (written or not written) between the Company and Rolf Hay has been terminated, such statement attached as **Schedule 4.2.7**.
 8. .8 Documentation stating that the inter-company loan provided by the Company to Nine United as of 24 July 2013 (the balance amounted to DKK 62,000, 000 .00 as of 21 February 2018), including interest, has been settled in full prior to Closing, such documentation attached as **Schedule 4.2.8**.
 3. 3 At the Effective Date, the Purchaser has delivered the following documents against the Sellers' simultaneous fulfilment of all their obligations set forth in Clause 4. 2:
 1. .1 Approval of the Transaction from the Purchaser's board of directors, such approval attached as **Schedule 4.3 .1**.
 1. Documentation stating that the Purchase Price has been transferred to the Sellers ' Bank Accounts in immediately available funds with value as of the Effective Date, such documentation attached as **Schedule 4.3 .2**.
 2. 3 Executed version of an exclusive license agreement between the Company and Herman Miller, Inc. signed by the legal representatives of Herman Miller, Inc., such license agreement attached as **Schedule 4.2.5**.
 3. Executed version of the Shareholders ' Agreement signed by the legal representatives of the Purchaser, such Shareholders' Agreement attached as **Schedule 4.2.6**.
 2. The actions specified in Clauses 4.1 and 4.3 are considered as being performed simultaneously to the *effect* that none of the actions are considered as having been performed before all actions have been performed or a Party has waived the other Part y's performance thereof.
 3. In the event that the Purchaser fails to fulfil its obligations under Clause 4.3. 2, the Sellers are entitled (i) to rescind (in Danish: "*h<Eve*") the Agreement and (ii) to be indemnified by the Purchaser for any Loss incurred due to such failure.
 5. **Post Closing**
 1. General meetings
 - 5.1. 1 The Parties shall on the Effective Date or as soon as reasonably possible thereafter procure (i) the holding of general meeting of shareholders of the Company for the purpose of electing a new board of directors of the Company in
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accordance with the Shareholders' Agreement, and (ii) the holding of a general meeting of shareholders of the Company for the purpose of adopting new articles of association in accordance with articles of association attached in agreed form as **Schedule 5.1.1**.

5.1.2 The Purchaser undertakes as soon as practically possible following Closing to notify the relevant business authority (in Danish: "Erhvervsstyrelsen") of the resignation of the members of the board of directors of the Companies who resign at Closing in accordance with the Shareholders' Agreement.

1. Registration of transfer of Shares with public register of shareholders.

1. 1 The Sellers shall procure that the Company on the Effective Date or as soon as reasonably possible thereafter procure that the new ownership of the Shares is duly recorded in the Danish Public Register of Shareholders (in Danish: "Det Offentlige Ejerregister" and "register over reel/e ejere") at the webpage www.virk.dk.

2. Incentive program for Rolf Hay

1. Within a reasonable time following the Effective Date and no later than three (3) months after the Effective Date, the Parties shall procure that the Company offers Rolf Hay a customary management incentive program as further set out in the Shareholders' Agreement.

3. Additional post Closing activities

5.4.1 In addition to the above -mentioned actions in this Clause 5, the Parties have agreed on implementing the additional post Closing activities listed in **Schedule 5.4.1** with in the individual time limits set out therein to the best of their abilities.

6. **The Purchaser's examinations**

1. Prior to the Effective Date, the Purchaser and its advisers have had the opportunity to examine the commercial, financial, legal and other matters of the Companies through a virtual data room during the period from 16 April 2018 to 1 June 2018.

The material which the Purchaser has had opportunity to examine has been copied to a USB stick which is handed over to the Purchaser and the Sellers in connection with the completion of the Transaction. A list of the material copied to the USB stick is attached in **Schedule 6.1**.

2. As part of its due diligence, the Purchaser has had opportunity to ask questions to the Sellers in writing and to interview relevant employees of the Company. A list of written questions and answers is also included in Schedule 6.1.

7. **The Sellers' Representations and Warranties**

1. As at the Effective Date, each of the Sellers provide the representations and warranties contained in **Schedule 7.1** in favour of the Purchaser.
 2. The Sellers' Representations and Warranties are provided with effect as at the Effective Date on an objective basis, i.e. without regard to the Sellers' actual knowledge. Except for the Sellers' Specific Indemnities, the Sellers' Representations and Warranties are the Sellers' complete and only representations and warranties and the Purchaser shall not rely on any other representations, warranties, assumptions or expectations - whether express or implied - except as expressly set out in this Agreement.
 3. The Sellers' Representation and Warranties are not limited by any knowledge of the Purchaser and its advisors whatsoever, including such knowledge which have been obtained on the basis of the Due Diligence Documentation.
 8. **The Sellers' Specific Indemnities**
 1. In addition to the Sellers' Representations and Warranties the Sellers provide the below indemnities in Clauses 8.2-8.8 (the "**Sellers' Specific Indemnities**") in favour of the Purchaser as at the Effective Date. The Sellers' Specific Indemnities concern matters of which the Purchaser has had notice prior to the Effective Date, and thus the Sellers' Specific Indemnities are not limited by any knowledge of the Purchaser and its advisors whatsoever.
 2. Tax
 1. No special Tax relief, Tax exemption, Tax incentive or the like enjoyed by any of the Companies may be changed or reversed as a result of circumstances attributable to the activities of the Companies prior to the Effective Date or as a result of the conclusion of the Agreement.
 1. .2 All income tax returns and reports relating to Tax which must be filed prior to the Effective Date by or on behalf of the Companies have been duly filed with the relevant authority and were correct and complete, and any information which must be filed for the purpose of correct Tax assessment has been filed. All due Tax payable by and imposed on the Companies has been paid in full.
 1. 3 The required and sufficient provisions for any kind of Tax payable but not yet due as at the date of the Annual Accounts have been made in the Annual Reports.
 2. No transactions, agreements or measures have been made or taken where the primary object was tax arbitrage, and no transactions, agreements or measures constitute illegal tax evasion.
 3. To the extent that the Companies have not met the applicable requirements of transfer pricing documentation and
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continuously complied with the prepared transfer pricing documentation, e.g. intragroup trading has taken place in accordance with the transfer pricing rules in force, there will be no Loss for the Purchaser and/or the Companies, except for ordinary consultancy costs for preparing such transfer pricing documentation.

4. The Companies have reported the Companies' historical tax losses to the Danish tax authorities, to the effect that the Danish tax authorities cannot refuse use of deferrable tax losses for the period preceding the Effective Date on the grounds that notification has not taken place in compliance with the provisions of Danish tax law.
5. The pre-Closing restructuring of shares regarding Nine United Norway AS and Nine United Studio UK Ltd. have been carried out on arm's length terms and will not result in any adverse Tax consequences for any of the Companies.
6. No Governmental Authority is entitled to make any claim against any of the Companies due to the Company's historical credit relief for foreign taxes.
7. No Governmental Authority is entitled to make any claim against the Company regarding withholding Taxes concerning the Company's royalty payments to ERB Sari.

2. IPR

8.3.1 The ownership of all IPR have been lawfully transferred to the Company or Nine United Studio UK Ltd. to the effect that no other Person (including other Nine United companies) has ownership to any such IPR and no Person is entitled to make any claim against the Companies due to such transfer of ownership.

1. .2 The Company's obligation to enforce the designers' Intellectual Property Rights in the whole world under the license Contract with Komplot Design will not result in a loss for any of the Companies.

2. Claims

8.4.1 The personal injury claim, which have been registered with the Company's insurance company (Zurich) in respect of the Company's master liability insurance under claim no. C18-012708 will not result in any Loss for any of the Companies.

1. .2 The personal injury claim of approximately EUR 40,000, which was caused in the Netherlands in 2016 due to a failure of a AAC23 chair, and which has been registered with the Company's insurance company, will not result in any Loss for any of the Companies.

2. General data protection regulation (GDPR)

1. Any non-compliance with the European GDPR will not result in any Loss for the Purchaser and/or the Companies.

3. Competition law

1. In the event that (a) the following Contracts (i) strategic co-operation agreement with Kvist Industries A/S; (ii) cooperation agreement with Sandra Baumer Thomas Schultz GbR; (iii) retail agreement with Over the Top BV; (iv) Retail agreement with HAY by Einrichter GmbH & Co. KG; (v) retail agreement Sari Pierfran; (vi) retail agreement with Reload Management AS; and (vii) cooperation agreement with Bahne S0rensen A/S violate applicable competition law and/or (b) any Person is entitled to make any claim against any of the Companies due to violation of such applicable competition law, such issues will not result in any Loss for the Purchaser and/or the Companies.

8.7 Cash balance and no Leakage

1. .1 At 4 June 2018, the Company had a positive cash balance of at least DKK 108,800,000. For the avoidance of doubt, the TAK License Payment and the lump sum payment from Herman Miller, Inc. under the exclusive license agreement (Schedule 4.2.5) are not included in the DKK 108,800,000.

8.7.2 During the period from 4 June 2018 to the Closing Date there has been no Leakage.

2. Contracts

8.8.1 None of the designers under the license Contracts regarding top ten products, to the effect that the IPR granted to the Company and Nine United Studio UK Ltd., respectively, may object to the licenses being sublicensed under the Contracts.

9. **The Purchaser's Representations and Warranties**

1. The Purchaser represents and warrants (the "**Purchaser's Representations and Warranties**") to the Sellers as set out in Clauses 9.1-9.5. The representations and warranties set out in Clauses 9.1-9.5 are the Purchaser's complete and sole representations and warranties and no other representations and warranties have been provided by the Purchaser pursuant to the Agreement. The Sellers shall not rely on any other representations, warranties, assumptions, expectations or agreements - whether express or implied - except as expressly set out in this Agreement. The Purchaser's Representations and Warranties are given with effect as of the Effective Date.

2. Due authorisation and binding obligations

1. The Purchaser validly exists and is registered, having capacity to carry on its business, to sue and be sued, to hold

its own assets and to enter into the Agreement and perform its obligations hereunder. The Purchaser has made all acts required to be made under the Purchaser's Corporate Documents and applicable law to enter into the Agreement and perform its obligations hereunder. No consent from any shareholder, creditor or any other Person, or notification to or registration with any court of law or administrative body is required in connection with the execution and performance of the Agreement, except as set out in the Agreement.

2. The Agreement is valid and binding on the Purchaser and is enforceable against the Purchaser in accordance with its terms, except where enforceability is prohibited or restrained by applicable bankruptcy and insolvency law or similar legislation generally affecting the enforceability of creditors' rights.

3. No breach

1. .1 Neither the execution nor the performance of the Agreement conflicts with or constitutes a breach of:

(1) the Purchaser's Corporate Documents;

(2) any material judgement, decision or order of any court, arbitration tribunal or Governmental Authority which includes or binds the Purchaser;

(3) any law or regulation applicable to the Purchaser; or

(4) any material agreement or obligation binding upon the Purchaser.

2. No disputes

1. .1 No claim, lawsuit, legal or other proceeding is pending or to the Purchaser's knowledge threatened against the Purchaser or its assets before any court, arbitration tribunal, or administrative body which, if adversely decided, would prevent or delay the Purchaser's consummation of the Agreement.

2. Payment guarantee

9.5.1 The Purchaser has, and will during the period until and including Closing have, at its free disposal the amount necessary for the Purchaser to settle its payment obligations at Closing, cf. Clauses 3.1 and 4.3.2.

10. Indemnification

1. Breach of the Agreement

1. 1 Either Party shall indemnify the other Party in compliance with the general rules of Danish law from any Loss suffered by the other Party as a result of a Breach. Notwithstanding the above, the clarifications and modifications specified in

Clauses 10.2-10.9 shall apply in regard to Claims concerning a Breach of the Sellers' Representations and Warranties and the Sellers' Specific Indemnities.

2. The Sellers have no obligation to indemnify the Purchaser with respect to information in the Due Diligence Documentation relating to future commercial risks, business plans, budgets, forecasts or similar commercially forward-looking matters
 1. 1.3 In case of a Breach of any of the Sellers' Representations and Warranties, the Sellers' Specific Indemnities or this Agreement, the Sellers shall in accordance with this Agreement indemnify the Purchaser for any Loss related to such Breach. Consequently, the Sellers are jointly and severally liable, however, in the individual relationship between the Sellers, each of the Sellers shall finally bear such Loss in proportion to their pro rata share of the Shares, i. e. Nine United shall bear 26/33 and Holdingselskabet shall bear 7/33.
- 10.1.4 For a period of twenty (20) Banking Days following receipt of a Claim Notice (as defined in Clause 10.5.1 below) from the Purchaser, the Sellers are entitled to remedy the Breach. If, and to the extent, the Sellers remedy the Breach, the Sellers' obligation to indemnify the Purchaser for said Breach will cease.
1. Calculation of Claims
 1. All Claims must be compensated by cash payment; however, the Purchaser is entitled to Claim specific performance instead of financial compensation in case of Breach of the Fundamental Representations and Warranties.
 2. Any payment from the Sellers to the Purchaser under Clause 10.1.1 is regarded as a reduction of the Purchase Price.
 3. Losses are calculated at the ratio of DKK 1 to DKK 1 without consideration of any multiples under which the Purchase Price has been calculated.
 4. When calculating the Purchaser's Loss, any amount and value of other benefits obtained (after deduction of costs and expenses such as self insurance) by the Companies (valued on the basis of Purchaser's thirty-three (33)% interest purchased hereunder) or the Purchaser as a result of the event giving rise to the Claim must be deducted from the Purchaser's Claim against the Sellers, including:
 - (1) Tax savings which the Purchaser and/or the Companies have obtained; and
 - (2) insurance payments received by the Purchaser and/or the Companies.
 5. In the event that the Purchaser - following payment by the Sellers of any amount of indemnification to the Purchaser - receives payment or enjoys a benefit (after deduction of costs and expenses such as self insurance) from a third party relating to the same Breach in accordance with Clause 10.2.4, the Purchaser shall reimburse the Sellers an amount corresponding to such net amount or benefit to the Sellers (not exceeding the amount of indemnification paid by the Sellers to the Purchaser) plus Interest from the time of the Purchaser's receipt of the amount or benefit from
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such third party.

10.2.6 The Purchaser shall use all reasonable efforts to use its influence in the Company in order to avoid and to mitigate all Loss arising from a Breach. If and to the extent that the Purchaser fails so to avoid and mitigate the Loss, the Sellers shall be relieved from their obligation to indemnify the Purchaser.

1. The Sellers have no obligation to indemnify the Purchaser for any Loss caused by (i) any change in applicable laws or regulations after the Effective Date including any change in Tax rates, (ii) any change in the Companies' accounting principles adopted after the Effective Date; or (iii) the Purchaser's and the Companies' actions or omissions after Closing.
2. The Sellers have no obligation to indemnify the Purchaser for any Loss incurred by the Purchaser if and to the extent specific provisions or write-offs are made in respect thereof in the Annual Reports.

1. Minimum Limit, Tipping Basket and Maximum Limit

10.3.1 If the Purchaser is entitled to set up Claims of indemnification for Breach of the Sellers' Representations and Warranties and/or the Sellers' Specific Indemnities, such a Claim may only be set up if each Claim exceeds DKK 423, 500 (the "**Minimum Limit**"), and if the Claim or all the Claims that individually exceed the minimum limit of DKK 423,500 collectively exceed DKK 4,235,000 (*basket*). In the event the abovementioned thresholds in this Clause 10. 3.1 are reached, the Sellers shall be liable in respect of the aggregate amount of such Claim from the first DKK 1.00 (the "**Tipping Basket**").

10. 3.2 The Sellers' total obligation to indemnify the Purchaser from Breach of the Sellers' Representations and Warranties and the Sellers' Specific Indemnities, shall not under any circumstances exceed, in the aggregate, DKK 31,709,000 (the "**Maximum Limit**").

1. .3 Any Loss or Claim by the Purchaser and/or the Purchaser's group/affiliates under the exclusive license agreement in Schedule 4.2. 5 shall be included when calculated whether the Maximum Limit has been reached. Thus, if, for instance, DKK 10,000,000 has been claimed in the exclusive license agreement, a maximum of DKK 21,709, 000 (DKK 31,709,000 -10,000, 000) can be claimed by the Purchaser under the Agreement.
 1. Series of Claims (i.e. Claims arising out of the same event or of several similar events) are regarded as one Claim according to the Minimum Limit of DKK 423,500 specified in Clause 10 .3.1.
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2. The limits specified in Clauses 10.3.1-10.3.4 do not apply to the Fundamental Representations and Warranties but do apply to the Sellers' Specific Indemnities.
 2. Time-barring
 1. Except with respect to the specific other Clauses of this Agreement described in Clauses 10.4.2-10.4.3, the Sellers' obligation to indemnify the Purchaser from Breach of the Sellers' Representations and Warranties becomes time-barred (i) in accordance with the provisions of Clause 10.5; or (ii) within fifteen (15) months after the Effective Date.
 2. The Sellers have no obligation to indemnify the Purchaser for a Loss resulting from Breach of the Fundamental Representations and Warranties, if the Purchaser fails to give notice to the Sellers of such Claims prior ten (10) years after the Effective Date.
 3. The Sellers have no obligation to indemnify the Purchaser for a Loss resulting from Breach of the Sellers' Specific Indemnities set forth in Clauses 9.2.1-9.2.9 (Taxes), if the Purchaser fails to give notice to the Sellers of such Claims prior to the date falling three (3) months after expiry of the statutory limitation period applicable to the underlying claim to which the Claim refers. Except with respect to the specific Sellers' Specific Indemnities described above, the Sellers have no obligation to indemnify the Purchaser for a Loss resulting from Breach of the other Sellers' Specific Indemnities, if the Purchaser fails to give notice to the Sellers of such Claims prior to fifteen (15) months after the Effective Date. It is intentional that this period equals the period in Clause 10.4.1.
 1. Notice of Claims
 1. In the event that the Purchaser wishes to make a Claim against the Sellers or in the event that the Purchaser acquires knowledge of a matter which may give rise to a Claim against the Sellers, the Purchaser shall give notice (a "**Claim Notice**") to the Sellers within sixty (60) Banking Days after the Purchaser appointed member and/or observer of the Company's board of directors acquiring knowledge of the matter giving rise to such Claim or possible Claim.
- 10.5.2 In the event that the Purchaser fails to give a Claim Notice to the Sellers in due time, cf. Clause 10.5.1, the Sellers' obligation to indemnify the Purchaser will cease in respect of the relevant matter.
- 10.5.3 A Claim Notice must contain a description in reasonable detail of the Claim and the factual and legal basis of the Claim as well as the amount of the Claim (estimated if necessary).
1. The Purchaser shall keep the Sellers informed of the status, development and other relevant information concerning
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a Claim.

2. 5 In the event that the Sellers reject (in part or in full) any obligation to indemnify the Purchaser in respect of a Claim, the Sellers shall notify the Purchaser thereof in writing. In such case, the Purchaser must commence arbitration proceedings in respect of the Claim (or such part thereof which the Sellers have rejected) within three (3) months of the Purchaser's receipt of the Sellers' rejection notice, failing which the Sellers' obligation to indemnify the Purchaser in respect of the Claim (or the relevant part thereof) will automatically cease.

1. Third party claims

1. 1 This Clause 10.6.1 applies in circumstances where:

- (1) a claim is made by a third party against the Purchaser or the Companies which has given rise or may be expected to give rise to a Claim by the Purchaser against the Sellers under the Sellers' Representations and Warranties or the Sellers' Specific Indemnities; or
- (2) the Purchaser or the Companies have made or may be expected to make a claim against a third party in respect of matters for which the Purchaser has made or may be expected to make a Claim against the Sellers under the Sellers' Representations and Warranties or the Sellers' Specific Indemnities.

1. .2 In the circumstances described in Clause 10.6.1 and provided that the Sellers beforehand have accepted to be under an indemnification obligation with respect to the Claim concerned in accordance with this Clause 10, the Purchaser shall (and the Purchaser shall contribute to that the Companies will):

- (1) keep the Sellers informed of all relevant matters pertaining to such claim, including written communication and discussions with the relevant third party and give the Sellers and their advisors access to the material pertaining to such claim, optionally with the exception of confidential paragraphs, and to a reasonable extent consult with the Purchaser's and the Companies' employees and advisors relevant in the context of such claim; and
- (2) take any such reasonable action requested by the Sellers, including the instruction of professional advisors nominated by the Sellers and who is acceptable to the Purchaser, such as not to be unreasonably withheld, to act on behalf of the Purchaser and/or the Companies, provided that the expenses incurred in this connection are reasonable, to make, defend or settle any such claim raised by or against a third party as referred to in Clause 10.6.1(1) or Clause 10.6.1(2).

2. No other remedies for Breach of the Agreement

- 10.7.1 The Parties waive the right to Claim remedies for Breach other than those specified above in this Clause 10 (and the limits stated herein), including the right to terminate the Agreement or to Claim a proportional reduction.
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1. Intent
 1. The limits specified in Clause 10.3 with respect to the remedies for Breach of the Parties do not apply in the event of intent (except in the event that such issue, information or circumstance was fairly disclosed in the Due Diligence Documentation or within the Purchaser's knowledge), however they do apply in the event of gross negligence. In the event of intent, the Sellers' obligation to indemnify the Purchaser from non-performance of the Sellers' Representations and Warranties or the Sellers' Specific Indemnities becomes time-barred at the latest of the following dates: (i) the date of time barring under Clause 10.4 and (ii) the date of time barring pursuant to the provision of the Danish Limitations Act on time barring.
 2. The Purchaser's security for Claims under the Sellers' Representations and Warranties and the Sellers' Specific Indemnities
 1. In security of any Claims of the Purchaser against the Sellers relating to Breach of the Sellers' Representations and Warranties and the Sellers' Specific Indemnities, each of the Sellers undertakes to retain an amount equal to ten (10)% of their respective part of the Purchase Price in cash or cash equivalents (the "**Retained Amount**") until the later of (i) fifteen (15) months from the Effective Date and (ii) the final settlement of any Claims made by the Purchaser in accordance with the provisions of the Agreement (the "**Release Date**") as security for the payment of any Claims that the Purchaser may have under the Agreement. If any of the Sellers at any time before the Release Date fails to retain the Retained Amount, the relevant Sellers Ultimate Owner shall be directly and personally liable for an amount equal to the shortfall of the Retained Amount. The Sellers and the Sellers' Ultimate Owners acknowledge and agree that they shall not allow any Third Party Rights to be granted in the Sellers' remaining shares in the Company
 11. **Non-competition and non-solicitation clauses**
 1. Without the prior written approval from the Purchaser cf. Clause 11.11, Holdingselskabet and Rolf Hay may not, directly or indirectly, have any interests in an undertaking that markets goods or services competing with the Companies' present activities or activities initiated or planned at the Effective Date.
 2. Interests in such a competing undertaking include:
 - a. direct or indirect ownership or co-ownership of the undertaking;
 - b. interest in the undertaking 's turnover or earnings;
 - c. participation in consortiums, joint ventures or other cooperation agreements with the undertaking;
 - d. status as a licensor of knowhow or Intellectual Property Rights or as a supplier of goods, including raw materials, semi-manufactures and components forming part of the undertaking's competing products;
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- e. performance of consultancy tasks and the like for the undertaking;
 - f. employment and a position as a special adviser or a member of the board of directors of the undertaking;
 - g. interests which according to their nature and significance must be ranked on a par with those mentioned; and
 - h. interests as those stated above in a company that directly or indirectly has such interests in the undertaking.
3. For the avoidance of doubt, indirect interest shall also include Holdingselskabet's or Rolf Hay's financing of an undertaking's or person's (e.g. Rolf Hay's spouse) holding of an interest or performance of an action which could constitute a Breach of the non-competition clause if it was held or performed by Holdingselskabet or Rolf Hay.
4. The non-competition clause does not prevent passive investments in companies whose shares are admitted to trading on a regulated market.
5. The non - competition Clause applies within the Companies' geographical area which shall mean the markets where the Companies conducts or have initiated or planned to conduct activities at the Effective Date.
6. The non-competition Clause applies to Holdingselskabet and Rolf Hay for thirty six (36) months after the Effective Date.
7. For the same period described in Clause 11.6, Holdingselskabet and Rolf Hay may not - directly or indirectly - have any business relations with Persons or undertakings that are or have been business connections, including without limitation customers, suppliers and designers of products in the HAY portfolio, of the Companies within the last twelve (12) months prior to the Effective Date if the business relation causes the Companies competition or in any other way may adversely affect the Companies ' business relation with the customer, supplier or designer concerned.
8. Non-compliance with the non-competition or non-solicitation Clause obliges Holdingselskabet or Rolf Hay to pay an agreed penalty of DKK 1,500,000 to the Purchaser for each Breach. If the Breach consists in bringing about or continuing a situation, including running a rival business or maintaining a customer relationship, each commenced month in which the situation is maintained will be regarded as one Breach.
- 1 .9 Payment of the agreed penalty does not mean that the obligations no longer apply, and in addition to the agreed penalty the Purchaser is entitled to prevent any wrongful conduct by means of an injunction or demand that the Company makes a decision on filing for an injunction. An injunction may be issued without provision of security.
1. If the Purchaser finds that Holdingselskabet and/or Rolf Hay do not comply with the restrictive covenants in this Clause
-

11, the Purchaser shall send a written notice of Breach to Holdingselskabet and Rolf Hay within thirty (30) days after the Purchaser became aware or ought to have become aware of the Breach. The notice must set forth the facts that have caused the alleged non-compliance with Clause

1. Following Holdingselskabet and Rolf Hay's receipt of said notice, Holdingselskabet and/ or Rolf Hay shall be entitled to cease the activities and thereby remedy said Breach within fourteen (14) Banking Days, if possible, without paying the agreed penalty pursuant to Clause 11 .8.

2. For the sake of clarification, and notwithstanding anything to the contrary set forth in this Agreement, in the event that Holdingselskabet and/or Rolf Hay desires to make any investment that would be prohibited by this Clause 11, Holdingselskabet may notify the Purchaser of the opportunity. If the Company does not desire to pursue such opportunity itself and the investment by Holdingselskabet and/or Rolf Hay would not have a material negative impact on the Company, the Purchaser shall not unreasonably withhold approval of such investment by Holdingselskabet and/or Rolf Hay.

3. The remedies stated in this Clause 11 are the Parties' and/or the Company's exclusive remedies in case of a Breach of this Clause 11.

2. Other provisions

1. Joint taxation

12.1. 1 The Company has participated in a mandatory tax consolidation scheme with Nine United. Provisions regarding the termination of the mandatory tax consolidation scheme of the Company are set out in **Schedule 12. 1.1**. The Company will not enter into to any other joint taxation arrangement based on the shareholdings as of Closing.

2. Costs

1. Nine United, Holdingselskabet and the Purchaser each pays its own costs regarding the negotiation, drafting and conclusion of the Agreement

3. Interest

1. Any payment which the Sellers and/or the Sellers Ultimate Owners are obligated to pay to the Purchaser under the Agreement shall include payment of Interest from (but not including) the due date set out in regard to such payment and until and including the date of payment.

4. Counterparts

1. .1 The Agreement is executed in three (3) identical counterparts of which the Purchaser and each of the Sellers each receive one original counterpart.

2. Notices

1. .1 Any notice required to be given under this Agreement must be in writing and as regards the Sellers addressed to:

Nine United A/S

Havnen 1
8700 Horsens Denmark
Attn.: Troels Holch Povlsen, thp@nin united .com

with a copy to

Bech-Bruun Law Firm P/S Vcerkmestergade 2
8000 Aarhus Denmark
Attn.: Claus Berner Nielsen, cbn@bechbruun.com

Holdingselskabet af 1/7 2007 ApS

Baunegardsvej 57
2900 Hellerup Denmark
Attn.: Rolf Hay, Rolf.Hay@hay.dk

with a copy to

Bruun & Hjejle Advokatpartnerselskab NØrregade 21
1165 Copenhagen K Denmark
Attn.: Mogens Thorninge, mth@bruunhjejle.dk and to the following as regards the Purchaser:

Herman Miller Holdings Limited

5th Floor, 9-10 Market Place London, W1W 8AQ
United Kingdom
Attn.: General Counsel, tim_lopez@hermanmiller.com

with a copy to

Herman Miller, Inc. 855 East Main Avenue
PO Box 302
Zeeland, Michigan 49464 United States of America
Attn.: General Counsel, tim_lopez@hermanmiller .com

and with a copy to

Andersen Partners
Jernbanegade 31
6000 Kolding Denmark
Attn.: Michael Roschmann Skovgaard, mrs@andersen-partners.dk

unless the individual Party gives notification of another addressee. Unless otherwise agreed, any notice required to be given under this Agreement will be regarded as having been duly given if it is in writing and delivered or sent by registered and stamped mail to the above addressees or if receipt thereof is otherwise acknowledged.

2. Confidentiality and publication

1. Subject to Clauses 12.6. 2 and 12.6.4, each Party shall treat as strictly confidential all Confidential Information. Confidential Information comprises (i) the terms and conditions of the Agreement, (ii) information concerning the other Party and its business and affairs obtained from the other Party in connection with the negotiations regarding the Agreement and its execution and performance and (iii) with respect to the Sellers and subject to Closing being completed, information concerning the Companies and their businesses and affairs.

2. Each Party may, however, disclose information which would otherwise be Confidential Information in the event that:

- (1) it is required by law or by a court of competent jurisdiction;
 - (2) it is required by any securities exchange, administrative body or other Governmental Authority, whether or not the requirement for information has the force of law;
 - (3) disclosure is made as a normal part of the preparation of the accounts and/or other financial reports;
 - (4) disclosure is made as a usual part of a due diligence review, however, provided that the parties to whom disclosure is made are subject to customary confidentiality undertakings;
 - (5) disclosure is made to its affiliates and/or its or their legal or financial advisers or banks, if such advisers or banks are under a legal obligation to treat such information as confidential;
 - (6) for the purpose of enforcing any right or complying with any obligation under this Agreement, including, to the extent required or appropriate, for the purpose of any arbitration proceedings pursuant to Clause 13.2;
 - (7) the information has come into the public domain through no fault of the relevant Party or any of its authorized recipients under Clause 12.6. 2(5); or
 - (8) the other Party has given its prior written approval to the disclosure, such approval not to be unreasonably withheld or delayed.
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3. Any disclosure pursuant to Clause 12.6 .2(2) requires prior notice to and consultation with the other Parties to the extent permitted by law.
 - 1 2.6.4 The Parties shall agree on the date and the substance of the announcement of the conclusion of the Agreement to the public and the Companies' employees upon due consideration of the Purchaser's groups obligations pertaining to stock exchange law and regulation.
 3. Omission to enforce rights
 1. A Party's omission in a specific situation to enforce a right under this Agreement will not limit such Party's right to exercise its right in compliance with the provisions of the Agreement in another situation, e.g. a later similar situation (except as expressly set out in this Agreement).
 4. Entire agreement
 1. This Agreement and the Shareholders' Agreement constitute the sole understanding of the Parties with respect to the subject matter hereof and supersede all prior oral or written discussions and agreements regarding the subject matter hereof, including, but not limited to, the letter of intent entered into by the Parties on 23 March 2018.
 5. Changes to the Agreement
 1. Should the Parties agree to amend this Agreement, such agreement must be made in writing.
 6. Assignment of rights and obligations
 1. .1 Neither Party may transfer or assign the Agreement or any of its rights or obligations hereunder to any third party - whether in ownership or as security - without the prior approval of the other Party save by operation of law.
 2. Invalid or unenforceable terms
 - 12.11.1 If a provision of the Agreement or part thereof becomes invalid or unenforceable, the validity or enforceability of the remaining provisions of the Agreement will not be affected. In such case, the Parties shall endeavour to negotiate in good faith any necessary adjustments of this Agreement in order to secure their basic interests and main objectives prevailing at the Effective Date. Failing an agreement between the Parties on necessary adjustments of the Agreement, such adjustments shall be made by arbitration in accordance with Clause 13.2.
 3. **Disputes**
-

1. Any dispute arising out of or in connection with this Agreement, including disputes regarding the existence or validity of the Agreement must be settled pursuant to Danish law, with the exception of any conflict of laws rules, which may lead to the application of other law than Danish law and/or CISG.
2. Any disputes, which cannot be amicably settled by the Parties, shall be settled with binding and final effect by arbitration administered in English by the Danish Institute of Arbitration in accordance with the rules of arbitration procedure adopted by the Danish Institute of Arbitration and in force at the time of filing of the arbitration case. If the Parties so agree, the dispute may be settled by one (1) arbitrator appointed by the Danish Institute of Arbitration. In other cases, the dispute shall be settled by three (3) arbitrators, whereas each Party involved in the arbitration case appoints an arbitrator, and the Danish Institute of Arbitration appoints the chairman of the arbitration tribunal. If a Party has not appointed an arbitrator within twenty (20) Banking Days of that Party having filed or received Notice of the request for arbitration, the Danish Institute of Arbitration will also appoint such arbitrator.
3. The place of arbitration shall be Copenhagen, Denmark.
4. The Parties are obliged to keep secret the arbitration proceedings and the award.

SIGNATURES FOLLOW ON THE NEXT PAGE

IN WITNESS WHEREOF, the Parties have entered into this Agreement effective as of the Effective Date.

As the Sellers:

On behalf of Nine United A/S:

On behalf of Holdingselskabet af 1/7 2007 ApS:

Troels Holch Povlsen Rolf Foged Hvidegaard Hay
Chairman of the board of directors Chief executive officer

As the Purchaser:

On behalf of Herman Miller Holdings Limited:

Director H. Timothy Lopez David Lutz
Director

EXHIBIT 21

HERMAN MILLER, INC., SUBSIDIARIES

The company's principal subsidiaries are as follows.

Name	Ownership	Jurisdiction of Incorporation
Colebrook Bosson Saunders, Inc.	100% Company	Michigan
Colebrook Bosson Saunders, Ltd.	100% Company	England, U.K.
Colebrook Bosson Saunders, Pty. Ltd.	100% Company	Australia
Convia, Inc.	100% Company	Delaware
Coro Acquisition Corporation-California	100% Company	California
Geiger International, Inc.	100% Company	Delaware
Global Holdings Netherlands B.V.	100% Company	Netherlands
Herman Miller Accessories, LLC	100% Company	Michigan
Herman Miller Asia (PTE.) Ltd.	100% Company	Singapore
Herman Miller (Australia) Pty., Ltd.	100% Company	Australia
Herman Miller Canada	100% Company	Canada
Herman Miller (Dongguan) Furniture Co., Ltd.	100% Company	China
Herman Miller Furniture (India) Pvt. Ltd.	100% Company	India
Herman Miller Global Customer Solutions (Hong Kong) Limited	100% Company	Hong Kong
Herman Miller Global Customer Solutions, Inc.	100% Company	Michigan
Herman Miller Global Holdings Luxembourg S.à r.l.	100% Company	Luxembourg
Herman Miller Holdings Limited	100% Company	England, U.K.
Herman Miller International Finance Luxembourg S.à r.l.	100% Company	Luxembourg
Herman Miller Japan, Ltd.	100% Company	Japan
Herman Miller, Ltd.	100% Company	England, U.K.
Herman Miller Mexico S.A. de C.V.	100% Company	Mexico
Herman Miller (Ningbo) Furniture Co. Ltd.	100% Company	China
Integrated Metal Technologies, Inc.	100% Company	Michigan
Maharam Fabric Corporation	100% Company	New York
Milcare, Inc.	100% Company	Michigan
Milsure Insurance, Ltd.	100% Company	Barbados
Meridian, Inc.	100% Company	Michigan
Nemschoff Chairs, Inc.	100% Company	Wisconsin
POSH Office Systems (Hong Kong) Limited	100% Company	Hong Kong
Steeline (Hong Kong) Limited	100% Company	Hong Kong
Sun Hing POSH Holdings Limited	100% Company	Hong Kong
Design Within Reach, Inc.	93% Company	Delaware
Herman Miller Consumer Co. Holdings	93% Company	Delaware
Naughtone (Holdings) Limited	50% Company	England, U.K.
Naughtone Manufacturing Ltd	50% Company	England, U.K.

Exhibit 23(a)-Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements Nos. 333-04367, 333-42506, 333-04365, 333-122282, 333-04369, 333-122283, 333-179138, 333-201706 and 333-220893 on Form S-8 and No. 333-220892 on Form S-3 of Herman Miller, Inc. of our reports dated July 31, 2018, with respect to the consolidated financial statements and schedule of Herman Miller, Inc. and the effectiveness of internal control over financial reporting of Herman Miller, Inc. included in this Annual Report (Form 10-K) for the fiscal year ended June 2, 2018.

/s/ Ernst & Young LLP
Grand Rapids, Michigan
July 31, 2018

Exhibit 31(a)

CERTIFICATE OF THE CHIEF EXECUTIVE OFFICER
OF HERMAN MILLER, INC. (THE "REGISTRANT")

I, Brian C. Walker, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended June 2, 2018, of Herman Miller, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrants' disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2018

/s/ Brian C. Walker
Brian C. Walker
Chief Executive Officer

Exhibit 31(b)

CERTIFICATE OF THE CHIEF FINANCIAL OFFICER
OF HERMAN MILLER, INC. (THE "REGISTRANT")

I, Jeffrey M. Stutz, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended June 2, 2018, of Herman Miller, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrants' disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2018

/s/ Jeffrey M. Stutz
Jeffrey M. Stutz
Chief Financial Officer

Exhibit 32(a)

CERTIFICATE OF THE CHIEF EXECUTIVE OFFICER
OF HERMAN MILLER, INC. (THE "COMPANY")

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

I, Brian C. Walker, Chief Executive Officer of the company, certify to the best of my knowledge and belief pursuant to Section 906 of Sarbanes-Oxley Act of 2002 that:

- (1) The Annual Report on Form 10-K for the period ended June 2, 2018, which this statement accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the company.

Dated: July 31, 2018

/s/ Brian C. Walker
Chief Executive Officer

The signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Herman Miller, Inc. and will be retained by Herman Miller, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(b)

CERTIFICATE OF THE CHIEF FINANCIAL OFFICER
OF HERMAN MILLER, INC. (THE "COMPANY")

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

I, Jeffrey M. Stutz, Chief Financial Officer of the company, certify to the best of my knowledge and belief pursuant to Section 906 of Sarbanes-Oxley Act of 2002 that:

- (1) The Annual Report on Form 10-K for the period ended June 2, 2018, which this statement accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the company.

Dated: July 31, 2018

/s/ Jeffrey M. Stutz
Chief Financial Officer

The signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Herman Miller, Inc. and will be retained by Herman Miller, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

