

MILLER HERMAN INC
Form 10-Q
October 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

- QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended August 31, 2013

Commission File No. 001-15141

HERMAN MILLER, INC.

A Michigan Corporation

ID No. 38-0837640

855 East Main Avenue, Zeeland, MI 49464-0302

Phone (616) 654 3000

Indicate by check mark whether the registrant:

(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

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

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

Yes No

Common Stock Outstanding at October 7, 2013 - 58,980,576 shares

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 FOR THE QUARTER ENDED AUGUST 31, 2013
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HERMAN MILLER, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Dollars in Millions, Except Per Share Data)
 (Unaudited)

	Three Months Ended	
	August 31, 2013	September 1, 2012
Net sales	\$468.1	\$449.7
Cost of sales	298.1	300.0
Gross margin	170.0	149.7
Operating Expenses:		
Selling, general, and administrative	114.4	101.0
Restructuring and impairment expenses	—	0.5
Design and research	16.5	13.9
Total operating expenses	130.9	115.4
Operating earnings	39.1	34.3
Other expenses:		
Interest expense	4.5	4.3
Other, net	0.1	—
Earnings before income taxes	34.5	30.0
Income tax expense	12.0	10.0
Equity loss from nonconsolidated affiliates, net of tax	—	—
Net earnings	\$22.5	\$20.0
Earnings per share — basic	\$0.38	\$0.34
Earnings per share — diluted	\$0.38	\$0.34
Dividends declared, per share	\$0.125	\$0.090
Other comprehensive income, net of tax		
Foreign currency translation adjustments	\$(0.7) \$2.8
Pension and post-retirement liability adjustments	1.4	1.6
Unrealized holding gain	—	—
Total other comprehensive income	0.7	4.4
Comprehensive income	\$23.2	\$24.4

See accompanying notes to condensed consolidated financial statements.

HERMAN MILLER, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Dollars in Millions Except Share Data)
 (Unaudited)

	August 31, 2013	June 1, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 110.1	\$ 82.7
Marketable securities	11.0	10.8
Accounts receivable, net	172.4	178.4
Inventories, net	77.4	76.2
Prepaid expenses and other	55.6	51.2
Total current assets	426.5	399.3
Property and equipment, at cost	754.5	765.3
Less — accumulated depreciation	(571.7)) (581.2)
Net property and equipment	182.8	184.1
Goodwill	226.7	227.0
Indefinite-lived intangibles	62.3	62.3
Other amortizable intangibles, net	47.1	48.0
Other noncurrent assets	27.6	25.8
Total Assets	\$973.0	\$946.5
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 130.2	\$ 130.1
Accrued compensation and benefits	59.2	65.9
Accrued warranty	24.6	24.8
Other accrued liabilities	82.8	69.2
Total current liabilities	296.8	290.0
Long-term debt	250.0	250.0
Pension and post-retirement benefits	39.7	39.6
Other liabilities	45.5	47.4
Total Liabilities	632.0	627.0
Stockholders' Equity:		
Preferred stock, no par value (10,000,000 shares authorized, none issued)	—	—
Common stock, \$0.20 par value (240,000,000 shares authorized)	11.8	11.7
Additional paid-in capital	108.5	102.9
Retained earnings	346.2	331.1
Accumulated other comprehensive loss	(123.6)) (124.3)
Key executive deferred compensation plans	(1.9)) (1.9)
Total Stockholders' Equity	341.0	319.5
Total Liabilities and Stockholders' Equity	\$973.0	\$946.5

See accompanying notes to condensed consolidated financial statements.

HERMAN MILLER, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF
 CASH FLOWS
 (Dollars in Millions)
 (Unaudited)

	Three Months Ended August 31, 2013	September 1, 2012	
Cash Flows from Operating Activities:			
Net earnings	\$22.5	\$20.0	
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	11.1	9.5	
Stock-based compensation	2.8	1.8	
Excess tax benefits from stock-based compensation	(0.7)	—)
Pension and post-retirement expenses	3.4	5.0	
Deferred taxes	(2.9)	—)
Gain on sales of property and dealers	(0.2)	—)
Restructuring and impairment expenses	—	0.5	
Other, net	—	(0.5))
Increase in current assets	(3.3)	(0.3))
Increase in current liabilities	6.6	(0.6))
Decrease in non-current liabilities	(1.1)	(6.7))
Net Cash Provided by Operating Activities	38.2	28.7	
Cash Flows from Investing Activities:			
Marketable securities purchases	(0.4)	(0.3))
Marketable securities sales	0.2	0.7	
Capital expenditures	(6.5)	(15.7))
Other, net	0.5	0.2	
Net Cash Used in Investing Activities	(6.2)	(15.1))
Cash Flows from Financing Activities:			
Dividends paid	(7.3)	(1.3))
Common stock issued	6.1	0.4	
Common stock repurchased and retired	(3.8)	(0.4))
Excess tax benefits from stock-based compensation	0.7	—	
Net Cash Used in Financing Activities	(4.3)	(1.3))
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(0.3)	(0.2))
Net Increase in Cash and Cash Equivalents	27.4	12.1	
Cash and Cash Equivalents, Beginning of Period	82.7	172.2	
Cash and Cash Equivalents, End of Period	\$110.1	\$184.3	

See accompanying notes to condensed consolidated financial statements.

HERMAN MILLER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared by Herman Miller, Inc. ("the company"), in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Management believes the disclosures made in this document are adequate with respect to interim reporting requirements.

The accompanying unaudited condensed consolidated financial statements, taken as a whole, contain all adjustments which are of a normal recurring nature necessary to present fairly the financial position of the company as of August 31, 2013, and the results of its operations and cash flows for the interim periods presented. Operating results for the three-month period ended August 31, 2013, are not necessarily indicative of the results that may be expected for the year ending May 31, 2014. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the company's Form 10-K filing for the year ended June 1, 2013.

2. NEW ACCOUNTING STANDARDS

During the first quarter of fiscal 2014, the company adopted Accounting Standards Update ("ASU") 2013-02, "Comprehensive Income (ASC Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail on these amounts. Refer to Note 14 for the disclosures related to this adoption.

3. FISCAL YEAR

The company's fiscal year ends on the Saturday closest to May 31. Fiscal 2014, the year ending May 31, 2014, and fiscal 2013, the year ended June 1, 2013, each contain 52 weeks. The first quarter of fiscal 2014 and fiscal 2013 each contained 13 weeks.

4. ACQUISITIONS AND DIVESTITURES

Maharam Acquisition

On April 23, 2013, the company entered into an agreement to purchase Maharam Fabric Corporation (Maharam), a New York-based, global designer and provider of high quality interior textiles for commercial, healthcare, and residential interiors. The company pursued the acquisition of Maharam in order to reinforce and accelerate Herman Miller's Specialty and Consumer initiative and support further opportunities in commercial markets.

The company closed the transaction on April 29, 2013 for consideration of \$155.8 million and the company estimates it will receive future tax benefits with a present value of approximately \$20 million.

The following table summarizes the fair values of the assets acquired and the liabilities assumed from Maharam on April 29, 2013. There have been no fair value adjustments since the date of acquisition through the end of the first quarter. The allocation of the purchase price is still considered preliminary and is based upon valuation information available and estimates made at April 29, 2013. The company is still finalizing information related to the valuation of intangible assets, deferred income taxes, goodwill and the allocation of goodwill and expects to finalize these matters within the measurement period, which is currently expected to remain open through the third quarter of fiscal 2014.

Valuation as of April 29, 2013

(In millions)	Fair Value
Purchase price	\$ 155.8
Fair value of the assets acquired	
Accounts receivable	11.1
Inventory	14.1
Other current assets	4.4
Investments in nonconsolidated affiliates	4.3
Other intangible assets	42.4
Goodwill	80.7
Property	12.1
Long term deferred tax asset	1.6
Other assets	0.2
Total assets acquired	170.9
Fair value of liabilities assumed	
Accounts payable	6.5
Current deferred tax liabilities	1.6
Accrued compensation and benefits	4.7
Other accrued liabilities	1.0
Other long term liabilities	1.3
Total liabilities assumed	15.1
Net assets acquired	\$ 155.8

The goodwill stemming from the transaction in the amount of \$80.7 million was preliminarily recorded as "Goodwill" in the Consolidated Balance Sheet and allocated to the North American Furniture Solutions and the Specialty and Consumer reportable segments. The amounts were allocated based on the expected synergies to be realized by the reportable segments that will benefit from combining the operations of Maharam into the company. The goodwill amounts allocated to the reportable segments were as follows:

Goodwill Segment Allocation from the Maharam Acquisition

(In millions)	Fair Value
North American Furniture Solutions	\$31.9
Specialty and Consumer	48.8
Total Goodwill	\$80.7

Intangible assets acquired as a result of the acquisition of Maharam were preliminarily valued at \$42.4 million. These amounts are reflected in the values presented in the table below:

Intangible Assets Acquired from the Maharam Acquisition

(In millions)	Fair Value	Useful Life
Trade name	\$23.0	Indefinite
Designs and patterns	3.1	5
Specifier and customer relationships	16.0	20
Non-compete agreements	0.3	2
Total Intangibles Acquired	\$42.4	

The following table provides net sales and results of operations from the Maharam acquired businesses included in the company's results since the April 29, 2013 acquisition. Included in the results for the three months ended August 31, 2013 from Maharam was an increase in cost of sales of \$1.4 million related to the fair value step-up of inventories acquired. For the period beginning on the acquisition date and ending on June 1, 2013, the amount of the increase in cost of sales related to the fair value step-up of inventories acquired was \$0.7 million.

Maharam Results of Operations

(In millions)	April 29, 2013 - June 1, 2013	Three Months Ended August 31, 2013
Net sales	\$ 10.6	\$ 27.3
Net income (loss)	(0.1) 0.8

Divestitures

During the first quarter of fiscal 2014, the company completed the sale of one wholly-owned contract furniture dealership in Oregon. The effect of this transaction on the company's consolidated financial statements was not material.

5. INVENTORIES, NET

(In millions)	August 31, 2013	June 1, 2013
Finished goods	\$ 59.3	\$ 57.5
Raw materials	18.1	18.7
Total	\$ 77.4	\$ 76.2

Inventories are valued at the lower of cost or market and include material, labor, and overhead. The inventories of the majority of domestic manufacturing subsidiaries are valued using the last-in, first-out method ("LIFO"). The inventories of all other subsidiaries are valued using the first-in, first-out method.

6. GOODWILL AND INDEFINITE-LIVED INTANGIBLES

Goodwill and other indefinite-lived assets included in the Condensed Consolidated Balance Sheets consist of the following as of August 31, 2013 and June 1, 2013:

(In millions)	Goodwill	Indefinite-lived Intangible Assets	Total Goodwill and Indefinite-lived Intangible Assets
June 1, 2013	\$ 227.0	\$ 62.3	\$ 289.3
Foreign currency translation adjustments	(0.2) —	(0.2
Sale of owned dealer	(0.1) —	(0.1
August 31, 2013	\$ 226.7	\$ 62.3	\$ 289.0

7. EMPLOYEE BENEFIT PLANS

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