



# SECOND QUARTER FISCAL 2019 RESULTS

July 25, 2019



# Forward Looking Statements

This earnings presentation contains "forward-looking" statements based on current expectations regarding future plans, events, outlook, objectives, financial performance, expectations for sales growth, and earnings per diluted share (GAAP and non-GAAP). Forward-looking statements can be identified by words including "expect," "believe," "anticipate," "estimate," "may," "will," "would," "could," "confident", or other similar words, phrases, or expressions. Forward-looking statements involve known and unknown risks and uncertainties, which may cause the Corporation's actual future results and performance to differ materially from expected results. These risks include but are not limited to: the levels of office furniture needs and housing starts; overall demand for the Corporation's products; general economic and market conditions in the United States and internationally; industry and competitive conditions; the consolidation and concentration of the Corporation's customers; the Corporation's reliance on its network of independent dealers; change in trade policy; changes in raw material, component, or commodity pricing; market acceptance and demand for the Corporation's new products; changing legal, regulatory, environmental, and healthcare conditions; the risks associated with international operations; the potential impact of product defects; the various restrictions on the Corporation's financing activities; an inability to protect the Corporation's intellectual property; impacts of tax legislation; and force majeure events outside the Corporation's control. A description of these risks and additional risks can be found in the Corporation's annual and quarterly reports filed with the Securities and Exchange Commission on Forms 10-K and 10-Q. The Corporation assumes no obligation to update, amend, or clarify forward-looking statements, except as required by applicable law.



# Conference Call Agenda

2nd Quarter Assessment

Review of 2nd Quarter Financials

Outlook

Q&A



# 2nd Quarter Results

Income Statement	2Q19	2Q18	\$ change F/(U)	% change Basis Pt Change
<b>Net Sales</b>	\$526.0	\$543.6	(\$17.6)	(3.2%)
Non-GAAP Gross Profit (excluding transition costs)	192.6	201.1	(8.5)	(4.3%)
% of Net Sales <sup>(1)</sup>	36.6%	37.0%		-40
Transition Costs <sup>(2)</sup>	-	0.3	0.3	
<b>GAAP Gross Profit</b>	\$192.6	\$200.9	(\$8.3)	(4.1%)
% of Net Sales	36.6%	37.0%		-40
Freight & Distribution	54.3	58.0	3.7	(6.4%)
% of Net Sales	10.3%	10.7%		-40
Non-GAAP Other SG&A (excluding F&D; restructuring and impairment charges)	114.1	115.0	0.9	(0.7%)
% of Net Sales	21.7%	21.2%		50
Restructuring and Impairment Charges <sup>(2)</sup>	0.9	0.8	(0.1)	
<b>Operating Income</b>	\$23.2	\$27.1	(\$3.9)	(14.1%)
% of Net Sales	4.4%	5.0%		-60
<b>Non-GAAP Operating Income</b>	\$24.2	\$28.2	(\$4.0)	(14.2%)
% of Net Sales	4.6%	5.2%		-60
<b>Net Income attributable to HNI Corp</b>	\$15.8	\$18.6	(\$2.8)	(15.0%)
% of Net Sales	3.0%	3.4%		-40
<b>EPS (diluted) - GAAP</b>	\$0.36	\$0.42	(\$0.06)	(14.3%)
<b>EPS (diluted) - Non-GAAP</b>	\$0.38	\$0.44	(\$0.06)	(13.6%)
Shares (diluted)	43.6	44.3		

(1) Gross profit margin decreased compared to prior year primarily driven by lower sales volume and higher input costs, partially offset by price realization.

(2) Includes costs related to previously announced facility closures and structural realignments of office furniture and hearth facilities.



# 2<sup>nd</sup> Quarter Results – Segments

Segment Breakdown	2Q19	2Q18	\$ change F/(U)	% change Basis Pt Change
<b>Sales</b>				
Office Furniture <sup>(1)</sup>	\$409.5	\$423.9	(\$14.4)	(3.4%)
Hearth Products <sup>(2)</sup>	\$116.5	\$119.7	(\$3.2)	(2.7%)
<b>Total</b>	<b>\$526.0</b>	<b>\$543.6</b>	<b>(\$17.6)</b>	<b>(3.2%)</b>
<b>Operating Profit</b>				
Office Furniture <sup>(3)</sup>	\$18.7	\$20.0	(\$1.3)	(6.4%)
Office Furniture Operating Margin <sup>(4)</sup>	4.6%	4.7%		(10)
Hearth Products <sup>(5)</sup>	\$13.4	\$16.3	(\$2.9)	(18.1%)
Hearth Operating Margin <sup>(6)</sup>	11.5%	13.6%		(210)
General Corporate	(\$8.9)	(\$9.3)	\$0.4	4.6%
Interest Income (Expense)	(\$2.5)	(\$2.6)	\$0.1	
Income Before Taxes	\$20.8	\$24.4	(\$3.6)	

(1) Organic down -2.2%; Supplies driven channel down -5.0%; Contract and International organic sales were up +0.9% (-1.6% as reported)

(2) New construction down -2.6%; retail products down -2.8%

(3) Non-GAAP operating profit of \$19.7M is down compared to prior year non-GAAP operating profit of \$20.4M

(4) Non-GAAP operating margin of 4.8% was flat compared to PY non-GAAP operating margin; decreases from lower sales volume, higher input costs, and investments were fully offset by improved price realization, Business System Transformation costs and freight expenses

(5) Non-GAAP operating profit of \$13.4M is down compared to prior year non-GAAP operating profit of \$17.1M

(6) Non-GAAP operating margin of 11.5% was down from PY non-GAAP operating margin of 14.3% driven by lower sales volume, higher input costs, and investments, partially offset by price realization and lower core SG&A spend



# Financial Outlook

## Fiscal Year 2019

<b>Net Sales – Consolidated</b>	<b>Up +1% to +4% organic (Flat to +3% as reported)</b>
Office Furniture Sales	Up +1% to +4% organic (Flat to +3% as reported)
Hearth Sales	Flat to +3%
Annual Effective Tax Rate	~22.5%
<b>Earnings Per Diluted Share</b>	<b>\$2.50 - \$2.70</b>



# Non-GAAP Financial Measures

This earnings presentation includes certain non-GAAP financial information as defined by Securities and Exchange Commission Regulation G. Pursuant to the requirements of this regulation, reconciliations of this non-GAAP financial information to HNI's financial statements as prepared in accordance with GAAP are included below and throughout this earnings presentation. This information gives investors additional insights into HNI's financial performance and operations. While HNI's management believes the non-GAAP financial measures are useful in evaluating HNI's operations, this information should be considered supplemental and not in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. In addition, these measures may be different from non-GAAP financial measures used by other companies, limiting their usefulness for comparison purposes.

To supplement our condensed consolidated financial statements, which are prepared and presented in accordance with GAAP, we use the following non-GAAP financial measures within this earnings presentation: organic sales, gross profit, operating income, operating profit, income taxes, net income, and net income per diluted share (i.e., EPS). These measures are adjusted from the comparable GAAP measures to exclude the impacts of the selected items as summarized in the table below. Generally, non-GAAP EPS is calculated using HNI's overall effective tax rate for the period, as this rate is reflective of the tax applicable to most non-GAAP adjustments.

The sales adjustments to arrive at our non-GAAP organic sales information included in this earnings presentation excludes the impact of closing and divesting small office furniture companies. The transactions excluded for purposes of our other non-GAAP financial information included in this earnings presentation for both periods presented include restructuring charges, impairment charges, and/or transition costs. Restructuring charges incurred in the current year period presented are primarily comprised of severance costs related to a structural realignment in the office furniture segment. In the prior year period presented, costs were incurred as part of the previously announced closures of the hearth manufacturing facility in Paris, Kentucky, the office furniture manufacturing facility in Orleans, Indiana, and structural realignments in China. Restructuring items incurred include severance, while impairment charges recorded in the second quarter of 2018 relate to a closed manufacturing facility previously held for sale. Transition items incurred include production move costs.

This earnings presentation also contains a forward-looking estimate of non-GAAP earnings per diluted share for the full fiscal year. We provide such non-GAAP measure to investors on a prospective basis for the same reasons we provide it to investors on a historical basis. We are unable to provide a reconciliation of our forward-looking estimate of non-GAAP earnings per diluted share to a forward-looking estimate of GAAP earnings per diluted share without unreasonable efforts because certain information needed to make a reasonable forward-looking estimate of GAAP earnings per diluted share is highly variable and difficult to predict and estimate, and is dependent on future events which are uncertain or outside of our control. These may include unanticipated charges related to asset impairments (fixed assets, intangibles, or goodwill), unanticipated acquisition related costs, and other unanticipated nonrecurring items not reflective of ongoing operations. We expect the variability of these charges to have a potentially unpredictable, and potentially significant, impact on our GAAP earnings per diluted share.



# Non-GAAP Reconciliations

(Dollars in millions)

**Sales as reported (GAAP)**

*% change from PY*

Less: Closure and Divestitures

**Organic sales (non-GAAP)**

*% change from PY*

Three Months Ended 6/29/2019		
<u>Office Furniture</u>	<u>Hearth</u>	<u>Total</u>
\$409.5	\$116.5	\$526.0
(3.4%)	(2.7%)	(3.2%)
-	-	-
\$409.5	\$116.5	\$526.0
(2.2%)	(2.7%)	(2.3%)

Three Months Ended 6/30/2018		
<u>Office Furniture</u>	<u>Hearth</u>	<u>Total</u>
\$423.9	\$119.7	\$543.6
5.0	-	5.0
\$418.8	\$119.7	\$538.6





# Non-GAAP Reconciliations (Cont.)

(Dollars in millions, except per share data)

**As reported (GAAP)**

*% of net sales*

*Tax %*

Restructuring charges

**Results (non-GAAP)**

*% of net sales*

*Tax %*

Three Months Ended 6/29/2019				
<u>Gross Profit</u>	<u>Operating Income</u>	<u>Tax</u>	<u>Net Income</u>	<u>Diluted EPS</u>
\$192.6	\$23.2	\$5.0	\$15.8	\$0.36
36.6%	4.4%	23.9%	3.0%	
-	0.9	0.2	0.7	0.02
\$192.6	\$24.2	\$5.2	\$16.5	\$0.38
36.6%	4.6%	23.9%	3.1%	

(Dollars in millions, except per share data)

**As reported (GAAP)**

*% of net sales*

*Tax %*

Restructuring and impairment charges

Transition costs

**Results (non-GAAP)**

*% of net sales*

*Tax %*

Three Months Ended 6/30/2018				
<u>Gross Profit</u>	<u>Operating Income</u>	<u>Tax</u>	<u>Net Income</u>	<u>Diluted EPS</u>
\$200.9	\$27.1	\$5.8	\$18.6	\$0.42
37.0%	5.0%	23.9%	3.4%	
-	0.8	0.2	0.6	0.02
0.3	0.3	0.1	0.2	0.00
\$201.1	\$28.2	\$6.1	\$19.4	\$0.44
37.0%	5.2%	23.9%	3.6%	



# Non-GAAP Reconciliations (Cont.)

**Second Quarter – Non-GAAP Financial Measures**  
 (Reconciled with most comparable GAAP financial measures)

(Dollars in millions)

**Operating profit as reported (GAAP)**

*% of net sales*

Restructuring and impairment charges

Transition costs

**Operating profit (non-GAAP)**

*% of net sales*

Office Furniture		
Three Months Ended		Percent Change
6/29/2019	6/30/2018	
\$18.7	\$20.0	(6.4%)
4.6%	4.7%	
0.9	0.1	
-	0.3	
\$19.7	\$20.4	(3.5%)
4.8%	4.8%	

Hearth Products		
Three Months Ended		Percent Change
6/29/2019	6/30/2018	
\$13.4	\$16.3	(18.1%)
11.5%	13.6%	
-	0.7	
-	-	
\$13.4	\$17.1	(21.7%)
11.5%	14.3%	