

The HNI logo consists of the letters "HNI" in a white, serif font, centered within a solid red square.

HNI



# SECOND QUARTER FISCAL 2015 RESULTS

July 23, 2015



# Forward Looking Statements

This release contains "forward-looking" statements based on current expectations regarding future plans, events, outlook, objectives and financial performance, expectations for future sales growth and earnings per diluted share (GAAP and non-GAAP) for the third quarter and full year fiscal 2015. 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: general economic conditions in the United States and internationally; unfavorable changes in the United States housing market; industry and competitive conditions; a decline in corporate spending on office furniture; changes in raw material, component or commodity pricing; future acquisitions, divestitures or investments; the cost of energy; changing legal, regulatory, environmental and healthcare conditions; the Corporation's ability to successfully complete its business software system implementation; the Corporation's ability to implement price increases; changes in the sales mix of products; 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 undertakes no obligation to update, amend or clarify forward-looking statements.



# Conference Call Agenda

2<sup>nd</sup> Quarter Assessment

Review of 2<sup>nd</sup> Quarter Financials

Outlook

Q&A

Income Statement	2Q15	2Q14	\$ change	% change Basis Pt Change
<b>Net Sales</b>	\$568.2	\$509.1	\$59.1	11.6%
Non-GAAP Gross Profit (excluding transition costs)	\$207.5	\$184.6	\$22.9	12.4%
% of Net Sales <sup>(1)</sup>	36.5%	36.3%		20
Restructuring <sup>(2)</sup>	-	2.6	(2.6)	
Transition Costs <sup>(3)</sup>	\$1.3	\$0.8	\$0.5	59.0%
<b>GAAP Gross Profit</b>	\$206.1	\$181.1	\$25.0	13.8%
% of Net Sales	36.3%	35.6%		70
Freight & Distribution <sup>(4)</sup>	\$51.0	\$46.7	\$4.3	9.2%
% of Net Sales	9.0%	9.2%		-20
Non-GAAP Other SG&A (excluding F&D; restructuring costs) <sup>(4)</sup>	\$116.3	\$108.6	\$7.7	7.1%
% of Net Sales	20.5%	21.3%		-80
Restructuring and Impairment <sup>(5)(6)</sup>	(\$0.6)	\$10.3	(\$10.8)	-105.4%
Gain on Sale of Assets	-	(\$1.3)	\$1.3	NM
GAAP SG&A	\$166.7	\$164.2	\$2.5	1.5%
% of Net Sales	29.3%	32.3%		-300
<b>Operating Income <sup>(7)</sup></b>	\$39.4	\$16.9	\$22.5	133.1%
% of Net Sales	6.9%	3.3%		360
Interest Expense (Net)	\$1.8	\$2.0	(\$0.2)	-9.4%
Income tax rate	36.4%	34.9%		150
Noncontrolling Interest	(\$0.0)	(\$0.0)	\$0.0	NM
<b>Net Income attributable to HNI Corp</b>	\$23.9	\$9.7	\$14.2	146.1%
% of Net Sales	4.2%	1.9%		230
<b>EPS (diluted) - GAAP</b>	\$0.52	\$0.21	\$0.31	147.6%
<b>EPS (diluted) - Non-GAAP</b>	\$0.53	\$0.39	\$0.14	35.9%
Shares (diluted)	45.6	45.9	(0.2)	-0.5%

(1) Margin positively influenced by increased volume, improved operational performance and increased price realization, partially offset by unfavorable product.

(2) 2Q14 includes accelerated depreciation related to consolidation of office furniture facilities.

(3) Includes transition costs related to transitioning production to other office furniture and hearth facilities.

(4) Dollar increase due to volume related expenses, strategic investments, and acquisition impact.

(5) Includes restructuring costs related to consolidation of office furniture facilities. The prior year also includes a goodwill impairment charge.

(6) Current quarter costs were favorable due to lower than anticipated post employment costs.

(7) Excluding restructuring and impairment charges, transition costs and gain on sale of assets, Non GAAP OI is \$40.2M compared to \$29.3M in prior year.



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

Segment Breakdown	2Q15	2Q14	\$ change	% change Basis Pt Change
<b>Sales</b>				
Office Furniture <sup>(1)</sup>	\$450.6	\$423.4	\$27.2	6.4%
Hearth Products <sup>(2)</sup>	\$117.6	\$85.7	\$31.9	37.2%
<b>Total</b>	<b>\$568.2</b>	<b>\$509.1</b>	<b>\$59.1</b>	<b>11.6%</b>
<b>Operating Profit</b>				
Office Furniture <sup>(3)</sup>	\$39.8	\$18.2	\$21.5	118.1%
Office Furn Oper Margin <sup>(4)</sup>	8.8%	4.3%		450
Hearth Products <sup>(5)</sup>	\$11.2	\$8.5	\$2.7	31.6%
Hearth Oper Margin <sup>(6)</sup>	9.5%	9.9%		-40
Unalloc Corp Exp	(\$13.4)	(\$11.9)	(\$1.5)	-13.0%
Income Before Taxes	\$37.6	\$14.9	\$22.7	152.6%

(1) Supplies driven channel up 2.3%; all other up 11.0%.

(2) Organic growth of \$6.9M; 8.0%. New construction channel up 9.4%; Remodel/Retrofit up 6.2%

(3) Excluding restructuring and impairment charges, transition costs and gain on sale of assets, Non GAAP OI is \$40.0M vs. \$32.0M prior year

(4) Operating margin of 8.8% positively impacted by increased volume, better price realization and improved operational performance partially offset by unfavorable mix, strategic investments and incentive based compensation.

(5) Excluding transition costs, non-GAAP Operating Profit is \$11.7M vs. \$8.5M prior year.

(6) Operating margin negatively impacted by acquisition partially offset by increased volume and better price realization.



# Financial Outlook

## 3<sup>rd</sup> Quarter

<b>Net Sales – Consolidated</b> <sup>(1)</sup>	<b>Up +5% to +9%</b>
Office Furniture Sales	Up +1% to +5%
Hearth Sales <sup>(2)</sup>	Up +20% to +24%
Interest Expense	\$1.9 Million
Annual Effective Tax Rate	35%
<b>Non-GAAP Earnings Per Diluted Share</b> <sup>(3)</sup>	<b>\$0.84 - \$0.89</b>

## Fiscal Year 2015

<b>Non-GAAP Earnings Per Diluted Share</b> <sup>(3)</sup>	<b>\$2.55 - \$2.65</b>
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(1) Organic consolidated sales growth excluding the impact of Vermont Castings Group up +1% to +5%

(2) Organic Hearth sales growth excluding the impact of Vermont Castings Group Flat to up +4%

(3) Excludes restructuring and transition costs.



# Non-GAAP Financial Measures

This earnings release contains certain non-GAAP financial measures. A "non-GAAP financial measure" is a numerical measure of a company's financial performance that excludes or includes amounts different than the most directly comparable measure calculated and presented in accordance with GAAP in the statements of income, balance sheets or statements of cash flow of the company. We have provided a reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measure.

The non-GAAP financial measures used within this earnings release are: gross profit, operating income, operating profit, net income per diluted share (i.e., EPS), excluding restructuring charges, transition costs impairments and gain/loss on sale. Non-GAAP EPS is calculated using the Corporation's overall effective tax rate for the period. We present these measures because management uses this information to monitor and evaluate financial results and trends. Management believes this information is also useful for investors. This earnings release also contains a forward-looking estimate of non-GAAP earnings per diluted share for the third quarter and full fiscal year 2015. We provide such non-GAAP measures to investors on a prospective basis for the same reasons we provide them 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 because certain information needed to make a reasonable forward-looking estimate of GAAP earnings per diluted share for the third quarter and full fiscal year is difficult to predict and estimate and is often dependent on future events which may be 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 non-recurring items not reflective of ongoing operations.



# Non-GAAP Reconciliations

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

	Three Months Ended 7/4/2015			Three Months Ended 6/28/2014		
Dollars in millions except per share data as reported (GAAP)	<b>Gross Profit</b>	<b>Operating Income</b>	<b>Diluted EPS</b>	<b>Gross Profit</b>	<b>Operating Income</b>	<b>Diluted EPS</b>
	<b>\$206.1</b>	<b>\$39.4</b>	<b>\$0.52</b>	<b>\$181.1</b>	<b>\$16.9</b>	<b>\$0.21</b>
<i>% of Net Sales</i>	36.3%	6.9%		35.6%	3.3%	
Restructuring Costs	-	(\$0.6)	(\$0.01)	\$2.6	\$12.9	\$0.19
Transition Costs	\$1.3	\$1.3	\$0.02	\$0.8	\$0.8	\$0.01
Gain on sale of assets	-	-	-	-	(\$1.3)	(\$0.02)
<b>Results (non-GAAP)</b>	<b>\$207.5</b>	<b>\$40.2</b>	<b>\$0.53</b>	<b>\$184.6</b>	<b>\$29.3</b>	<b>\$0.39</b>
<i>% of Net Sales</i>	36.5%	7.1%		36.3%	5.8%	





# Non-GAAP Reconciliations (Cont.)

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

	Three Months Ended 6/28/2014		
Dollars in millions	Office Furniture	Hearth Products	Total
Net Sales - As Reported	\$423.4	\$85.7	\$509.1
Organic Sales	\$423.4	\$85.7	\$509.1

	Three Months Ended 7/4/2015		
	Office Furniture	Hearth Products	Total
Net Sales - As Reported	\$450.6	\$117.6	\$568.2
Acquisition Sales	-	(\$25.0)	(\$25.0)
Organic Sales	\$450.6	\$92.6	\$543.2
Organic Growth	<b>6.4%</b>	<b>8.0%</b>	<b>6.7%</b>



# Non-GAAP Reconciliations (Cont.)

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

Dollars in millions	Office Furniture			Hearth Products		
	Three Months Ended		Percent Change	Three Months Ended		Percent Change
	<u>7/4/2015</u>	<u>6/28/2014</u>		<u>7/4/2015</u>	<u>6/28/2014</u>	
<b>Operating profit as reported (GAAP)</b>	<b>\$39.8</b>	<b>\$18.2</b>	<b>118.1%</b>	<b>\$11.2</b>	<b>\$8.5</b>	<b>31.6%</b>
<i>% of Net Sales</i>	8.8%	4.3%		9.5%	9.9%	
Restructuring Costs	(\$0.6)	\$12.9		-	-	
Transition Costs	\$0.8	\$0.8		\$0.5	-	
Gain on sale of assets	-	-		-	-	
<b>Operating profit (non-GAAP)</b>	<b>\$40.0</b>	<b>\$32.0</b>	<b>25.2%</b>	<b>\$11.7</b>	<b>\$8.5</b>	<b>37.9%</b>
<i>% of Net Sales</i>	8.9%	7.6%		9.9%	9.9%	