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**HNI Corp.** (HNI)

Q1 2015 Earnings Call

## CORPORATE PARTICIPANTS

Matthew D. McGough  
*Vice President-Corporate Finance*

Kurt A. Tjaden  
*Vice President and Chief Financial Officer*

Stanley A. Askren  
*Chairman of the Board, Chief Executive Officer, President, Director*

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## OTHER PARTICIPANTS

Matthew S. McCall  
*BB&T Capital Markets*

Josh A. Borstein  
*Longbow Research LLC*

Beryl Bugatch  
*Raymond James & Associates, Inc.*

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Todd A. Schwartzman  
*Sidoti & Co. LLC*

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning. My name is Sally, and I will be your conference operator today. I would like to welcome everyone to the HNI Corporation's First Quarter Fiscal 2015 Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] As a reminder, today's conference call is being recorded. Thank you.

Mr. McGough, you may begin your conference.

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Matthew D. McGough  
*Vice President-Corporate Finance*

Good morning. Thank you for joining us for the HNI Corporation conference call to discuss first quarter and fiscal 2015 results announced yesterday after market close.

Copies of our financial news release and earnings presentation including non-GAAP reconciliations have been posted on our website, [www.hnicorp.com](http://www.hnicorp.com). Joining me today from HNI Corporation are Stan Askren, Chairman, President and CEO, and Kurt Tjaden, Vice President and CFO.

Statements made during this call that are not strictly historical facts are forward-looking statements which are subject to known and unknown risk. Actual results could differ materially from expected results. The earnings presentation posted on HNI Corporation website include additional factors that could affect actual results. The corporation assumes no obligations to update any forward-looking statements made during the call.

I'm pleased to turn the call over to Stan Askren.

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Stanley A. Askren  
*Chairman of the Board, Chief Executive Officer, President, Director*

Good morning, everyone. We'll share an assessment of the first quarter 2015; provide some thoughts and our outlook for second quarter and full year 2015 as well. We'll then open the call for questions.

We had a great start to the year. Consolidated sales were up 16%. We delivered strong earnings results as projected, while continued significant investments for long-term profitable growth. Our Office Furniture business has outperformed the market with double-digit top line growth. Our supply driven business sales were up 15%. Sales in the remaining Office Furniture businesses increased 13%, led by 15% growth in our North American contract business. This is the third consecutive quarter our North American contract business has delivered double-digit sales growth.

Our Hearth sales increased 24% including the Vermont Castings Group acquisition or 3% organically. Strong growth continued in new construction sales with organic growth of 18%. And as expected, organic remodel retrofit sales were down due to very challenging year-over-year biofuel product sales comparisons. I'm very pleased with our first quarter results and our momentum heading into the second quarter.

I'll turn it over to Kurt Tjaden.

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## Kurt A. Tjaden

*Vice President and Chief Financial Officer*

Thank you, Stan. Additional financial highlights for the first quarter include, consolidated gross margins increased 35.2% compared to 34.3% in the prior year quarter due to volume, increased price realization and strong operational performance. As a percent of net sales, total selling and administrative expenses excluding restructuring charges and gain on prior year's sale of assets increased 10 basis points. The benefit of higher volume was more than offset by higher freight costs, investments in strategic initiatives, higher incentive-based compensation and the impact of the acquisition.

We recognized \$1.5 million of restructuring and transition costs in the quarter in connection with previously announced manufacturing facility closures. In 2014, we recognized an \$8.4 million gain on the sale of a vacated facility.

Stan?

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## Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

Our outlook for the second quarter, we expect to again deliver strong sales and earnings growth in the second quarter. Our Office Furniture market momentum is strong, and we project continued growth across all channels. In the Hearth business, we anticipate continued strong growth in new construction sales. Remodel retrofit sales will again be lower due to challenging year-over-year biofuel product sales comparisons. I'll say it again; we have great momentum and are well-positioned to continue deliver strong results.

Kurt?

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## Kurt A. Tjaden

*Vice President and Chief Financial Officer*

So financial outlook for the second quarter and the full year. For the second quarter 2015, we anticipate overall sales growth to be 12% to 16% or 8% to 12% organically. Office Furniture sales are expected to increase 8% to 12%. Sales of the supplies driven channel are forecasted to increase 5% to 9%. And sales in the rest of our Office

Furniture businesses are projected to increase 11% to 15%. Hearth sales are expected to be up 35% to 39% or up 8% to 12% on an organic basis.

Gross profit margin excluding restructuring and transition costs, is forecasted to modestly improve versus second quarter 2014, when it was 36.3%. Non-GAAP SG&A as a percentage of sales excluding restructuring, impairments and gain on sale of assets is expected to be similar to second quarter 2014, when it was 30.5%.

The effective tax rate is projected to be approximately 35% for the full year. Capital expenditures for the full year are forecasted to be \$110 million to \$115 million, and our estimated range for non-GAAP earnings per diluted share for the second quarter is \$0.47 to \$0.52. For the full year, we are raising the low-end of our estimated guidance \$0.05. Our new estimated range for non-GAAP earnings per diluted share is \$2.50 to \$2.65.

Stan?

**Stanley A. Askren**

*Chairman of the Board, Chief Executive Officer, President, Director*

And in conclusion, we enter the second quarter with continued strong momentum across our businesses and we're well-positioned to grow sales and significantly increase profits in 2015.

With those comments complete, Kurt and I will now open it up for questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Your first question comes from the line of Matt McCall with BB&T Capital Markets. Your line is open.

**Matthew S. McCall**

*BB&T Capital Markets*

Q

Thanks. Good morning, everybody. So let's start with contract. I mean the outperformance there is noteworthy. Can you point to anything, Stan, that you're having particular success at? Is it a product category? Is it a certain segment of the market? How are you able to do so much better than the industry?

**Stanley A. Askren**

*Chairman of the Board, Chief Executive Officer, President, Director*

A

It's broad based, Matt. There is nothing particular to call out, except to say it's broad based.

**Matthew S. McCall**

*BB&T Capital Markets*

Q

And you mean, is that broad based product, is that broad based customer, is that broad based end-market, product shop, project size? I mean, is it kind of all those?

**Stanley A. Askren**

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Yes, sir.

Matthew S. McCall

*BB&T Capital Markets*

Q

Okay. That's fair. Kurt, your incremental margin in Hearth, I know it's being impacted by Vermont Castings. But can you talk about what it was on an organic basis? How we should look at it, both on an organic basis and with Vermont for the rest of the year?

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

Yeah. So our outlook for that, Matt, is basically unchanged. You ought to expect core Hearth leverage for the year to be well north of that 35% number that we've talked in the past. And if you put Vermont Castings in there, all-in, it ends up being kind of mid-teens. So that outlook is consistent with what we had talked on prior calls.

Matthew S. McCall

*BB&T Capital Markets*

Q

So you talked about that 30% to 35%, you're saying well in excess of 35%, is that...?

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

I would say 35% is still the right number; could be, but I'd – still 35% is the right place.

Matthew S. McCall

*BB&T Capital Markets*

Q

Okay. I thought I heard a well in excess in there, so maybe not. So you've talked about a couple of things that impacted margins, freight, investments in initiatives and then incentives. Can you talk about each one of those buckets, and then, how we should look at those items through the remainder of this year?

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

Sure. So I'll take that cut out, Matt, higher freight costs, clearly carrier capacity, West Coast port disruption plays an impact, we'd expect to see that continue. Investments in strategic initiatives, we talked about that. We have attractive investment opportunities that have great payback. Those I would expect to see continue. Higher incentive based comp is the combination of as our earnings increase, we pay out more profit sharing to our members. And the other impact in the quarter is fair market value on deferred stock. So as our stock price goes up, that has an impact, and acquisition will roll off in the fourth quarter. So I would say relatively balanced for the quarter between them, but those, particularly on the investments and strategic initiatives, those are the things that are driving the top line and we'd expect to see drive the kind of incremental margin and leverage that we talked about for the year.

Matthew S. McCall

*BB&T Capital Markets*

Q

And when you say balanced across those, is that on a dollar basis? And if so, what was the total dollar impact of those items in the quarter?

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

Yeah. I'd say, dollar base is relatively balanced, kind of \$2 million to \$3 plus million per – on each of them for the quarter.

Matthew S. McCall

*BB&T Capital Markets*

Q

Okay. And then final one I have is really on price cost. Can you remind us the price benefit you had on year-over-year basis and how much of that was offset or helped by inflation or deflation?

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

Yeah, so pricing has been positive. We put pricing across all of our businesses. Thus far this year, its average call it 3% type pricing. And commodity inflation modest, again, as we talked, kind of 2% to 3% inflation, not a lot of that in the first quarter, but would expect that relationship to be positive for the full year outlook.

Matthew S. McCall

*BB&T Capital Markets*

Q

Okay. So for the quarter, you had a net benefit?

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

Yes.

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

But I'll remind you, Matt, we have people costs going up, we have freight costs going up, et cetera. So Kurt's answer to your question is correct, price to the materials is an advantage, but if you look overall, it's not an advantage.

Matthew S. McCall

*BB&T Capital Markets*

Q

So they basically net each other out?

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Close enough. Close enough.

Matthew S. McCall

*BB&T Capital Markets*

Q

Okay, All right.

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Close enough.

Matthew S. McCall  
*BB&T Capital Markets*

Q

Thank you, guys.

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

You bet.

**Operator:** Your next question comes from the line of Budd Bugatch with Raymond James. Your line is open.

Beryl Bugatch

*Raymond James & Associates, Inc.*

Q

Good morning, Stan. Good morning Kurt. Good morning, Matt. A couple of questions, or help maybe educate me. What surprised you in the quarter; what came in differently than what you might have expected when you gave guidance, or going into the quarter? Was there anything that surprised you, or thought that you would like to help us understand?

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Yeah, I mean Budd first off I think we came in, as we projected. So we came in, the midpoint of our guidance, the overall glide path for us was right on. So, A, we weren't surprised with the overall results, just to be clear. Now, what was difference than we thought on the downside was biomass was softer than we thought. We had it down, we didn't have it down as much as it ended up down, that's a function of weather. Last year, as you recall, we had a huge biomass bump, because it was very, very cold, seems like it was cold this year, but not as cold as last year, and so the biomass would have been softer than anticipated.

Beryl Bugatch

*Raymond James & Associates, Inc.*

Q

Okay. And profitability, Kurt, I was trying to get to your mid-teens, excluding Vermont Castings and make sure we're calculating the contribution margin properly. We get, just on the raw numbers, a 4% contribution margin year-over-year. And then if I try to do it sequentially, I think I get to a 30% plus. So is that the more relevant, sequentially, since Vermont Castings was in the fourth quarter?

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

You're talking for the second – rather for the full year [indiscernible] (13:04).

Beryl Bugatch

*Raymond James & Associates, Inc.*

Q

I'm talking for the first quarter, looking at the contribution margin. Year-over-year in Hearth, I get to like 3.7% looking at....

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

Yeah.

Beryl Bugatch

*Raymond James & Associates, Inc.*

Q

... at that just on the raw numbers. But that doesn't include Vermont Castings in the base. So I'm trying to understand, you said mid-teens without Vermont Castings.

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

Yeah, that would be a full year number Budd, when I talked mid-teens, but for first quarter, your numbers would be about in the ballpark.

Beryl Bugatch

*Raymond James & Associates, Inc.*

Q

Okay. So maybe help us – help educate us as to how that plays out over the year, because that's a fairly wide standard deviation or variance from the average of the year, or is there any way to do it, or just...?

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

Yeah, the way I think about it, Budd, is with any acquisitions, as we integrate, as we come up on the lean that we'll bring to bear, you'll see that acceleration on leverage on Vermont Castings through the year. The other piece, recall, as you come into the back half of the year you've got a higher volume than you do in the first half. So the benefit will be greater, but it's really just growing into that acquisition, as we kind of come up on that one year anniversary and realize the benefits of the investments we're making to transform that business.

Beryl Bugatch

*Raymond James & Associates, Inc.*

Q

Okay. And is it on track as you wanted it to be?

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

Yes, it is [indiscernible] (14:39).

Beryl Bugatch

*Raymond James & Associates, Inc.*

Q

I mean it was operating fairly well when you bought it, as I recall. The leadership there had done a pretty good job.

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Well, yes, the leaders have done a nice job, but I think we were clear, it is a transformation opportunity, the value creation opportunity is to bring that business up to par with the rest of our Hearth businesses both front-end and back-end, sales growth and costs. And so I don't recall the margins exactly on that, but they were a – maybe a third of what our core business is, and so the opportunity for us as Kurt is saying, is to apply our resources, know-how, lean thinking, manufacturing front-end capability alongside that management team and bring them up to where the rest of our business is at.

Beryl Bugatch

*Raymond James & Associates, Inc.*

Q

Okay. All right, and just a couple of other ones, if I could. Thank you for that. The freight costs, that's primarily due to the shortage of drivers or you said something about I think the West Coast port strike, or port disruption. How did that impact you?

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Yeah, Kurt – the answer to your questions is yes, it is primarily carrier capacity which is being driven by driver capacity. So that's the real takeaway. Kurt mentioned, port slowdown, that had a modest effect in the first quarter, we're not going lay anything off on that. We felt it more keenly. In the fourth quarter of last year, we worked it through, we get paid to kind of sort all that out. So it has an impact, but I wouldn't dial in on that and whatever residual effect is still there, we work through, I would say.

Beryl Bugatch

*Raymond James & Associates, Inc.*

Q

Okay. And did you quantify the freight increment that you saw?

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Yeah, I think Kurt took a shot at that of \$2 million to \$3 million, something like that, Budd.

Beryl Bugatch

*Raymond James & Associates, Inc.*

Q

And that continues each quarter for the next until we – when do anniversary that?

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Well, I think it continues. I think the whole freight thing, as you know, is very dynamic. I think supply and demand have to kind of reach an equilibrium and it's not clear to me that the driver situation has been resolved and it's got to be resolved. So will it continue? I think it will in the foreseeable future. When does it plateau? I don't know.

Beryl Bugatch

*Raymond James & Associates, Inc.*

Q

Okay. And my last question relates to corporate overhead. It's equivalent, I think, in this quarter to what it was in first quarter, or very similar. Is the right way to think about that now flat, and is there something in there that needs to be accounted for?

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

Yes. As I talked for the quarter Budd, we had a couple of things that play through there. One, on the strategic investment front, we continued to have more a full run rate on our BST, Business System Transformation initiatives, so there is some incremental on that. And the second part is the fair market value on stock and incentive based comp. So I would expect a kind of 10%, 12% increase on corporate overhead for the full year.

Beryl Bugatch

*Raymond James & Associates, Inc.*

Q

And quarter-by-quarter, just that way, Kurt, or...?

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

Yeah, hard to lay it in but, particularly with the stock price, but I think flowing pretty evenly through the year.

Beryl Bugatch

*Raymond James & Associates, Inc.*

Q

Thank you. All right, thanks. Thanks so much. Congratulations on a good quarter and good luck for the rest of the year.

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Thanks Budd.

**Operator:** Your next question comes from the line of Josh Borstein with Longbow Research. Your line is open.

Josh A. Borstein

*Longbow Research LLC*

Q

Hi, good afternoon everyone. Thanks for taking my questions here. Just on the last question that Budd asked on corporate expense, just to make sure I understand. You said to anticipate 10% to 12% higher versus what the corporate expenses were last year?

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

Correct.

Josh A. Borstein

*Longbow Research LLC*

Q

Okay.

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

For the full year, Josh.

Josh A. Borstein

*Longbow Research LLC*

Q

Got it. Okay. Thanks. And then just on the guidance, you brought up the low-end by \$0.05. Where do you see revenues for the full year? Are you still anticipating mid-single digits in Office and mid-single digits in Hearth?

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Correct, Josh. We do.

Josh A. Borstein  
*Longbow Research LLC*

Q

Okay. And the 2Q guide maybe came in a little bit lower where the Street was. Could you help us understand maybe the flow of the year where the Street maybe got it wrong a little bit; do you see the year a little bit more back-half weighted in terms of earnings?

Stanley A. Askren  
*Chairman of the Board, Chief Executive Officer, President, Director*

A

First off, we're never clear of what the Street comes up with, Josh.

Josh A. Borstein  
*Longbow Research LLC*

Q

Okay.

Stanley A. Askren  
*Chairman of the Board, Chief Executive Officer, President, Director*

A

I'm glad you laughed at that. I don't really know, we quite frankly, I'll make my speech and then I'll try to answer your question. We're not terribly concerned about quarter-by-quarter to be honest with you. The Street really focuses on quarter. We kind of take a longer view. We give, we try to help the Street by giving quarterly guidance, but we're not anticipating this quarter and the next quarter and trying to steer that, that's just a waste of our time and it leads to bad investment decisions from where we sit. So it does move around, we get you guys get paid to figure that out. So where do I think the Street missed it? My guess is, we're probably more back-end loaded than the Street have. I don't know Kurt, what's your view on that?

Kurt A. Tjaden  
*Vice President and Chief Financial Officer*

A

I think its normal fluctuation and there is nothing of significance from a shift first half to second. I just...

Stanley A. Askren  
*Chairman of the Board, Chief Executive Officer, President, Director*

A

We – Josh, to be honest with you, I haven't changed my view of this business, in fact if any thing, I'm more positive than the last time we talked. The Street gives kind of some funny – takes on some funny signals on this. We delivered right in the midpoint of our guidance. We hit what we thought we were going to do, feel really good about that, still feel great about the year, big time increase for the year, strong top line in Office Furniture, really strong new construction in Hearth. I mean, if single-family starts around 4.5% and we're up 18% on our new construction business, we're doing really well there, I think that's going to continue. And so, the rest kind of comes down to sort of, it's choppy from where we sit, we don't worry too much about that and I think maybe the Street thought it was going to be smoother, I don't know.

Josh A. Borstein  
*Longbow Research LLC*

Q

Yeah. No, I hear you, and I agree with everything you're saying. From everything I'm hearing, you feel every bit as good about the business as you did last time. So all the indicators certainly seem positive from what I'm hearing.

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Right on.

Josh A. Borstein

*Longbow Research LLC*

Q

And you guys mentioned you've been taking share. And clearly the last three quarters in contract have been very strong for you guys. Do you have any idea who you're taking share from? And do you think it's the big national players, maybe the smaller regional players?

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

You know, Josh, we're smiling here. We are very careful to claim when we're taking share because that's kind of a wicked game, because – and if we don't take it in the quarter then I got to come tell you that I think we're performing very well is where I'm at. And so where is that – I think we're outperforming the market. Where is that coming from? Well, typically in this business taking share in the short-term is really kind of challenging. So I think we're outperforming because, A, the market is performing well; B, I think we're in the right spot with the right customers and the right model. Third, I think it's coming from a bunch of things, front-end investments, back-end investments, middle investments, I just think all of our companies are performing well. I mean they're all working the levers and it seems to be happening. And I think if you say, who are we outperforming to, starts to – get close to your question, I'd say it's probably coming a little bit from a lot. But we don't – because we're still broadly diversified, it's really even hard for us to tell, Josh. It just kind of comes and when it comes, it feels great, and when it doesn't, we go work all the levers that turn that around.

Josh A. Borstein

*Longbow Research LLC*

Q

And just speaking to that diversification that you guys have, have there been any shifts with any of the lines, say, more HON, more Allsteel; anything that gives you any indication of maybe some changes?

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Well the answer is, they are all – our big horses are all pulling nicely together and there haven't been big shifts. The thing I would say is the supply side of the business is coming back online in a big way. I mean the numbers we gave you was the supply driven business sales were up 15% and then Kurt gave you that they're going to be up 5% to 9% in the second quarter. That's a nice improvement over where we've been post-recession. As you recall, small business, which tends to be – small business comps tends to be the bigger driver on this, has been slow to come back on line. And we're starting to see this portion of the business come back on line and that's really a great economic engine for the corporation. So I think that's the good news and that's also why I feel – continue to feel good about the outlook for the business.

Josh A. Borstein

*Longbow Research LLC*

Q

Is it your sense that the small business owner is just has greater confidence in the economy and maybe is going forward with some projects that they were hesitant on before?

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Yeah. That's our sense and I would say it's been creeping back, I mean it's been much slower than I think any of us thought it would come back, but yes, it feels like slowly the confidence is coming back, they're stepping for, some of the uncertainty is diminishing, and then, it's not just projects, it's also the day -to-day replacement sort of thing as well.

Josh A. Borstein

*Longbow Research LLC*

Q

And just one last one for me. The operational performance you guys saw in Office this quarter; a nice performance, up 300 basis points, the EBIT margins; contribution margin approaching 30%. Was that better than your internal expectations? And what could we expect going forward in that segment?

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Yeah. I think the answer to your question is it's what we expected. And what you should expect going forward is the same. We said that we should deliver for the year 25% to 30% leverage on the organic portion of the business. And so we're really programming that and driving leaning into that number. And that's what we're expecting, Josh.

Josh A. Borstein

*Longbow Research LLC*

Q

Great. Thanks for taking my questions.

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Yeah, thank you.

**Operator:** Your next question comes from the line of Todd Schwartzman with Sidoti & Company. Your line is open.

Todd A. Schwartzman

*Sidoti & Co. LLC*

Q

Hi. Good morning, guys. Just wanted to follow-up on Josh's question. The op margin, 5% for Furniture for the quarter, what is the ceiling on that for the foreseeable future?

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Yeah, that's a great question, Todd. I don't know. We said 25% to 30% margin this year, and quite frankly, we are investing in core sort of operation improvements and we've got more of that on the board planned and are executing. So I don't know what the ceiling is yet. Our objective is to continue to drive that up.

Todd A. Schwartzman

*Sidoti & Co. LLC*

Q

And are there product categories that might be particularly helpful on that front? I guess this dovetails with the market share question, where are you making the most inroads in the past 12 months?

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Well, we're working all the product categories, Todd. And again, we're very broadly diversified in sort of market segments and product categories and et cetera. And our objective is to be working all of those. And so, I would say, we're seeing progress in all of those categories as well.

Todd A. Schwartzman

*Sidoti & Co. LLC*

Q

Got it. You may have mentioned, I didn't hear the beginning of the prepared remarks, but the biomass sales, what was that on as a percentage of total Hearth sales for the quarter?

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

I think, is your question, what percentage is biomass of the total Hearth business?

Todd A. Schwartzman

*Sidoti & Co. LLC*

Q

Correct.

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

It's like a third, Todd.

Todd A. Schwartzman

*Sidoti & Co. LLC*

Q

Okay. You've mentioned the strategic initiatives. I wonder if you can just kind of give some more color on that, and also speak to whether there's been any changes as far as your outlook for uses of cash?

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Well, I'll comment on the strategic initiatives and we'll talk about the cash second. So again, I sound like I'm beating the same drum, broad based. So strategic initiatives around the front-end, strategic initiatives around sort of the back-end manufacturing, logistics, distribution, and then the middle, which is a big one, we're working right now, our Business System Transformation. And so we're working all of these and then each of the op companies, each of our brands, each of business models are working this as well. And it's really more – it's more of what we've been doing, is what we see going forward as well.

Uses of cash, same sort of priorities, A, we're going to pay, – well, A, we're going to invest in the business and projects that we think can generate a strong return for shareholders. Second, we're going to pay a strong and growing dividend. Third, we're going to – when we see an acquisition that makes sense, that we can create value, that creates economic profit, we're going to do it. And then finally we're going to buy stock back. At least offset dilution and there maybe opportunities that we buy a little bit more; same sort of priorities as we've been working and I see that same sort of priorities as we go forward.

Todd A. Schwartzman  
*Sidoti & Co. LLC*

Q

Excellent. Thank you very much.

Stanley A. Askren  
*Chairman of the Board, Chief Executive Officer, President, Director*

A

Thank you, Todd.

**Operator:** Your next question comes from the line of Matt McCall with BB&T Capital Markets. Your line is open.

Matthew S. McCall  
*BB&T Capital Markets*

Q

Thanks. One more from me. Kurt, I think you said – or maybe it was you, Stan, mid-single-digit growth is still the way to look at the full year. And I'm specifically referencing Furniture here. You did 14% in Q1. You're guiding to 10% in Q2 to get to mid-single-digits, and I don't know if maybe that was an industry comment, but that would imply a pretty substantial slowdown. Did I misunderstand it, or is there something more we should be thinking about?

Stanley A. Askren  
*Chairman of the Board, Chief Executive Officer, President, Director*

A

Well first off, Matt, you got to take in the year-over-year comparison. So when you say slowdown, I don't know what that means. Do we think the market is slowing down? No. Do I think there may be year-over-year comparison differences? Yes. So don't take my comments as anything other than, as I said, I think Josh asked a good question, I talked about where the momentum is. Our view is the momentum of the market will continue and actually will improve over where we're at. The year-over-year comparison, I don't know, Kurt, and Matt can help you walk that through, but I don't see a slowdown. I don't know Kurt, do you have any comment on that?

Kurt A. Tjaden  
*Vice President and Chief Financial Officer*

A

No. I think you got it.

Stanley A. Askren  
*Chairman of the Board, Chief Executive Officer, President, Director*

A

Okay.

Matthew S. McCall  
*BB&T Capital Markets*

Q

Okay. Perfect. Thank you, Stan.

Stanley A. Askren  
*Chairman of the Board, Chief Executive Officer, President, Director*

A

You bet.

**Operator:** Your next question comes from the line of Josh Borstein with Longbow Research. Your line is open.

Josh A. Borstein

*Longbow Research LLC*

Q

Just a follow-up on the biomass Hearth business; just trying to get a better sense for where it may be going. It was down this quarter, but you had mentioned last year you were up against a very difficult comp from weather that helped demand. And last quarter when you talked about it, you had also talked about this business having a long tail, where people remember what energy prices were like before they went down. And it's slow to maybe decelerate. So going forward, do you see a bounce back in biomass or at least not declines that weren't as – the magnitude not as great as this quarter?

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

The answer is it tends over a couple of years to kind of level out, and so last year, I'm looking at my team here, biomass was up 40%...

Kurt A. Tjaden

*Vice President and Chief Financial Officer*

A

45%.

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

... 45% same period, so it's bounced high. This quarter it's down something like 30%. And so where it's going to end-up Josh, it's going to end-up somewhere in the middle there. And it's a tricky business forecast, because it's seasonal product. It's a dealer retail product, and it's driven by the cost of energy, namely fuel oil and LP, and it's driven by weather. And so – and we're the predominant player in that category. We have a very large share there, and so it's – the answer to your question again is this, it's going to be somewhere between that 45% to minus 30% level.

Josh A. Borstein

*Longbow Research LLC*

Q

Thanks for the help.

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

A

Yep.

**Operator:** There are no further questions at this time. Mr. Askren, I'll turn the call back over to you.

Stanley A. Askren

*Chairman of the Board, Chief Executive Officer, President, Director*

Thank you. Well, we appreciate everybody's interest in HNI and we look forward to talking with you in the future. We hope you all have a good day. Thank you.

**Operator:** This concludes today's conference call. You may now disconnect.

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