

# MLKN Earnings Call Transcript

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**Quarter: 2**

Operator: Good evening, and welcome to MillerKnoll, Inc.'s Quarterly Earnings Conference Call. As a reminder, this call is being recorded. I would now like to introduce your host for today's conference, Wendy Watson, Vice President of Investor Relations. Good evening.

Wendy Watson: Welcome to our second quarter fiscal 2026 conference call. On with me are Andi Owen, Chief Executive Officer, and Kevin Veltman, Chief Financial Officer. Joining them for the Q&A session are Jeff Stutz, Chief Operating Officer, John Michael, President of North America Contract, and Debbie Propst, President of Global Retail. We issued our earnings press release for the quarter ended November 29, 2025, after market closed today, and it is available on our Investor Relations website at millernoll.com. A replay of this call will be available on our website within 24 hours. Before I turn the call over to Andi, please remember our safe harbor disclosure regarding forward-looking information. During the call, management may discuss information that is forward-looking and involves known and unknown risks, uncertainties, and other factors which may cause the actual results to be different than those expressed or implied. Please evaluate the forward-looking information in the context of these factors which are detailed in today's press release. The forward-looking statements are made as of today's date, and except as may be required by law, we assume no obligation to update or supplement these statements. We also refer to certain non-GAAP financial metrics, and our press release includes the relevant non-GAAP reconciliations. With that, I'll turn the call over to Andi.

Andi Owen: Thanks, Wendy. Good evening, everyone, and thank you for joining us. I'm pleased to report MillerKnoll, Inc. delivered another strong quarter exceeding expectations and demonstrating the effectiveness of our strategy to drive long-term value. Our performance this quarter is a result of disciplined execution across our core growth levers. Expanding our retail footprint, delivering innovative new products across our portfolio, and deepening customer engagement globally. We are entering the second half of our fiscal year with solid order growth in every segment. Let me begin with our Global Retail segment. Second quarter orders increased 6% year over year, with sales up 5% and comparable sales growth of 3.5%. In North America retail, we navigated one of the busiest periods of the year. Our orders were up 8%, and comparable sales growth was also up 8% while holding promotions and marketing spend flat to last year. During our holiday cyber promotional period, the twelve days from the Friday before Thanksgiving through GivingTuesday orders rose 12% compared to the same period last year, when orders were up mid-single digit. We set multiple records in North America Retail including the highest orders in DWR brand history both in-store and online, as well as the most single-day web visits for DWR. We continued our store expansion opening four new locations in Q2, a DWR in Salt Lake City, and Herman Miller stores in Nashville, and an El Segundo in Walnut Creek, California. We also relocated two stores opening a new DWI location in Houston and a new Herman Miller location in Berkeley, California. For the full fiscal year, we now anticipate opening 14 to new stores in the US, advancing our strategy to double our DWR and Herman Miller store footprint over the next several years. Our North American retail growth is driven by four strategic levers. New store openings, expanded product assortment, e-commerce acceleration, and increased brand awareness. We are encouraged by our customers' engagement with our brands and positive response as we execute this strategy. Another key advantage we have in this business is the strength of our supply chain. With approximately 70% of North America retail's cost of goods sourced from the US, our pricing is

significantly less exposed to tariff risk compared to most competitors. Turning to our contract businesses, momentum continues to build in North America. And internationally as organizations prioritize bringing employees together, and refreshing their workspaces. Orders, industry benchmarks, and dealer sentiment were all up this quarter. The return to office trend is positively impacting demand for commercial real estate, design services, and contract furniture. And we're winning projects globally in resilient sectors such as healthcare, where solutions for the entire care journey from waiting rooms to labs to patient rooms. Are making a meaningful impact Our total healthcare orders are up 5% year to date. New product innovation also remains a key driver Our Noel Dividend Skyline launch has been met with strong enthusiasm from customers in the A and D community resulting in several large project awards well ahead of the official order entry date in January 2026. Internationally, we continue to enhance our global showroom footprint Last month, we introduced a Miller North showroom in Shanghai to engage A and D global accounts, and key partners in Mainland China. Through my ongoing conversations and visits with our international dealers, I am energized by the significant growth opportunities these markets present. Looking ahead, we expect to grow share with the most desired product portfolio in the market, and through expanding our dealer share wallet while continuing to generate enviable margins. In closing, we remain optimistic based on our execution and accomplishments in the first half of the fiscal year. Looking ahead, we see encouraging signals that indicate we will continue to grow through our enhanced innovation initiative, our expanding retail footprint, and our powerful partnerships and dealer networks. Our strategy is developing as planned, We are highly focused on flawless execution. We have demonstrated that we are tenacious and we have the capacity to adapt in order to capture our full potential and navigate disruption. We are on pace to our plans, and disciplined, focused on meeting our potential as a growth-minded company. We have the cash flow and balance sheet strength to capitalize on our opportunities and drive continued momentum. December is also a time to reflect on our achievements, and look forward. I want to extend a heartfelt thank you to our associates across MillerKnoll, Inc. for their extraordinary commitment every day. Your dedication is the foundation of our success. I am so proud of your unwavering commitment to delight our customers in every brand and our collective with products that define modern design around the globe. With that, I'll turn it over to Kevin to discuss our financial results in more detail and share our outlook for the fiscal third quarter.

Kevin Veltman: Thanks, Andi, and good evening, everyone. I'll begin with a summary of our second quarter results and then discuss our outlook. In the second quarter, adjusted earnings per share of \$0.43 exceeded expectations. Reflecting stronger than expected sales and gross margin. Consolidated net sales for the quarter were \$955 million, down 1.6% year over year on a reported basis and 2.5% lower organically. As we have previously discussed, we expected lower year over year sales this quarter given the \$55 million to \$60 million in pull-ahead activity in North America contract that pulled forward sales into our first quarter. For the first half of the fiscal year, consolidated net sales reached \$1.9 billion, up 4% year over year, with this normalized view demonstrating the strength of our business. Orders for the quarter grew to \$973 million, up 5.5% as reported and 4.5% higher on an organic basis. Our order momentum across all three segments reinforces our confidence in an improving demand environment and our ability to execute our growth strategy. Second quarter consolidated gross margin was a strong 39%. This includes approximately \$1 million in net tariff-related costs. We expect our proactive mitigation actions to fully offset tariff costs in the second half of our fiscal year, supporting both gross margin and earnings per share resilience. Turning to cash flows and the balance sheet, we generated \$65 million in operating cash flow and ended the second quarter with \$548 million in liquidity. Our net debt to EBITDA ratio of 2.87 times remains comfortably below our lending covenant limits. Reflecting our disciplined approach to capital allocation and financial flexibility. Continue to balance investments and growth with maintaining a strong balance sheet. Our disciplined approach focuses on driving operational efficiency. Leveraging scale and optimizing production capabilities across our facilities As part of this approach, we recently announced the consolidation of our Muskegon, Michigan facility with production transitioning to other plants. This consolidation is expected to deliver \$10 million in annual run rate savings by fiscal 2028. With that, I will move to the second quarter performance by segment. Net sales in the North America Contract segment were \$509 million, down 3.1% year over year following last quarter's 12.1% sales growth that was partially driven

by the tariff-related pull forward. For the first half of the fiscal year segment sales were up 4.1%. Orders increased to \$507 million, up 4.8% from prior year, Operating margin was 8.7% and adjusted operating margin was 9.7%, down 50 basis points year over year primarily from deleverage on lower sales. International contract segment net sales were \$171 million, down 6.3% on a reported basis and down 9.2% on an organic basis year over year. Orders rose to \$162 million, up 6.6% versus prior year on a reported basis and up 3.4% organically, driven by strength in Europe, the UK, China, and India, partially offset by lower orders in Korea and the Middle East. Second quarter reported operating margin was 9.3%, with adjusted operating margin of 9.7%. Down 280 basis points primarily due to deleverage on lower sales and regional and product mix of sales in the Global Retail segment, net sales were \$276 million, up 4.7% on a reported basis and up 3.4% organically. Orders improved to \$304 million, up 6% year over year on a reported basis and up 4.5% on an organic basis. Operating margin was 1.5% in the quarter On an adjusted basis operating margin was 2.1%. Down 170 basis points year over year. Primarily due to costs related to the new stores, net tariff costs, foreign currency As Andi mentioned, we opened four net new stores in the second quarter. We expect to open two to three additional stores in the third quarter and anticipate opening a total of 14 to 16 new stores in the full fiscal year. Turning to our Q3 guidance. Our outlook incorporates the latest information on tariffs and new store investments, as well as the typical seasonal softness in our contract businesses as the calendar year comes to a close and the timing of the Chinese New Year holiday. We expect net sales to range between \$923 million and \$963 million, up 7.6% versus prior year at the midpoint. Gross margin is projected between 37.9% and 38.9%, and adjusted expense is expected to range from \$300 million to \$310 million higher year over year primarily due to increased variable selling and incentive expenses along with new store costs. Adjusted diluted earnings are expected to range between \$0.42 and \$0.48 per share. Based on current tariffs in place, we expect our proactive pricing and tariff mitigation actions to fully offset tariff impacts to gross margin and EPS in the second half of the fiscal year. Included in our expectations for operating expense and EPS are costs associated with new stores and global retail. We estimate approximately \$5 million to \$6 million in incremental operating expense year over year for the new locations in Q3, with a similar range expected in Q4. These investments are aligned with our strategy to expand our retail footprint and drive long-term growth. For further details related to our outlook, refer to our press release, With that overview, I'll turn the call over to the operator. As always, we welcome your questions and look forward to discussing our progress outlook, and strategic priorities.

Operator: Now begin the question and answer session. I would like to remind everyone in order to ask a question, please press star followed by the number one on your telephone keypad. First question comes from the line of Reuben Garner with The Benchmark. Please go ahead.

Reuben Garner: Thank you. Good evening, everybody. Evening. Maybe just to start, having the second quarter that you just reported, gross margin came in above what was expected, revenue came in at the high end and OpEx was a little higher. Was that mix of business, or can you talk about what drove kind of the puts and takes relative to what you were expecting a few months ago?

Kevin Veltman: Yeah. So if you look at gross margin for the quarter coming in better than expected, it was a bit of channel mix and a bit of product mix. We also had some good pricing realization, particularly credit to our teams on working through the tariff mitigation as we work through both price increases and surcharges. And then operating expenses was variable selling costs, from the sales over delivery as well as the timing of some expenses, and FX was something else that played a factor.

Reuben Garner: Okay. And then in the press release, you talked about kind of the order rate, the twelve-day holiday period, those growth rates are pretty strong. And later in the quarter, On the contract side, specifically in The Americas, can you talk about kinda how that ebbed and flowed or orders through the quarter? Were they a little softer, during the shutdown period and just kind of more talking points in terms of pipeline or any other data points you have internally would be helpful.

Kevin Veltman: Yeah. So we had, from an orders perspective, really across all the businesses, with orders up organically 4.5%, in the quarter. It was consistent across all three months of the quarter So seeing a lot of consistency there and then even in the first couple weeks of the new quarter, we're in that mid-single-digit range. So it's been fairly consistent. The other thing I would call out as we look at a number of both external measures and internal measures is if you go back to the springtime, the world was at its highest point of tariff uncertainty. And so we're seeing a lot of sequential improvement and a

lot of both external, whether it's leasing activity, but also some of our own internal measures that as we kind of get past that we're seeing sequential improvements as well.

Reuben Garner: Sorry. I got stuck on mute. And then I'm gonna sneak one more in on, America's contract. Any specific geographies, or customer types, industries, I guess, that you're seeing particular strength or changes in? And then you know, AI has been a question we've gotten a lot lately just wanted to kinda get your thoughts on how that may or may not be impacting demand going forward in the contract space?

John Michael: Hi, Reuben, it's John. I would say from a geographic perspective, some of the markets that have been slower to come back are starting to really percolate. So if you think about the Bay Area, Southern California, we're definitely seeing a pickup there. Really, the Northeast Coast has been strong. For a number of months. I think in terms of industries, energy, professional services, legal, are all very active. Obviously, public sector or federal government is a little softer than normal given earlier in the year, the doge work and then the government shutdown that's had a bit of an impact And pharma and banking are down slightly over prior year. But other than the public sector, pretty strong across the board. And as Andi mentioned in her opening comments, healthcare continues to be a growth driver.

Andi Owen: And hey, Reuben, can you clarify your question on AI? Are you asking about AI implementation in the company? Are you asking about from customers? Just to be clear.

Reuben Garner: From customers, how that may impact them employment, how that may impact how the office looks going forward? Are you seeing changes in floor plates or anything else, in the way that we work?

Andi Owen: You know, I think we'll see changes. It's a little early to tell from our customer viewpoint, but as we kind of plan and innovate for the future, we imagine that there will be productivity gains and absolutely changes on how work together. So we're thinking about that in a more future-forward way. I think today the impact on actual workspaces has been pretty minimal. But I do think the conversations are pretty broad and fast in how all of our customers are thinking about it and using it.

Reuben Garner: Thanks for the detail, guys. Good luck in the New Year, and happy holidays.

Andi Owen: Thanks, Reuben. You too.

Operator: Your next question comes from the line of Philip Bley with William Blair. Please go ahead.

Philip Bley: Thank you. Good evening, everyone. Can you maybe just talk about your expectations for the contract business in the third quarter a bit more? Maybe some color around key drivers between price versus volume? Whether we're fully through the prior quarter pull forward or whether or not any of that sort of still bleeding into the third quarter as well? Then obviously, it's a slow time of year for contracts seasonally, but anything to suggest volume trends shouldn't continue at current levels or potentially move up from here in second half, assuming all macro remains the same? Thank you.

Kevin Veltman: Philip? Yes. Philip, this is Kevin. I'll start. North America contract, orders in the quarter were up about 5% on an organic basis at Similar to the comments earlier, we've been seeing some pretty good, consistent encies. And so we think in that mid-single digits is kind of a nice spot that that business was in during the quarter. And seems to be running from an order level perspective as well. Year to date, the to your question on order pull ahead, we think our orders are clear of any of that activity. If you normalize our sales year to date, in North America contract, those are up about 4%. So also kind of in that mid-single-digit range.

John Michael: Tom, how would you add?

Tom: I would add that. In terms of in terms of external indicators for continuing demand, if I think about the conversations we're having of late with commercial real estate brokers, They seem to generally be very bullish across the board on 2026, and that obviously bodes well for for our industry. Similarly, architectural designs firms, while the overall ABI is down a bit, The more premium-based firms seem to be very busy. And if you look at from an absorption perspective in commercial real estate, it's the class A space and even the class A plus space that is getting the most attention right now as companies are trying to elevate the office experience to get their employees back. And our brands tend to play very well in that sector.

Philip Bley: Okay. Excellent. Very helpful. Oh, go ahead.

Kevin Veltman: I just gonna add. You asked about price versus volume. And it tends to be in the contract businesses. You tend to be able to pass along inflation fairly well through the industry. And so

over the long run, you're passing along that 2% to 3%, and we've been seeing a fairly even mix at those level of growth rates of price and volume.

Philip Bley: Okay. Excellent. Very helpful. And then your growth in retail is very exciting. Particularly with the insight into how North America performed during the peak holiday week. So you can maybe you talk about a bit about the acceleration there. What drove that sort of response from the consumer? The competitive environment seems particularly promotional, so did you have to lean in there? Or how do you kind of think about the durability of that kind of growth particularly as we exit the holiday season? Thank you all.

Andi Owen: Yeah. So one thing I'll I'll I'll add and then I'm gonna have Debbie give you some of her thoughts. I think the team has done a great job building brand awareness. And since this is such a nascent business for us, I think as we have new stores and as people become more familiar with the DWR and Herman Miller brands, really helping us. I think our promotions were at the same level as they were last year, which I think is pretty phenomenal considering the results we showed. Our marketing spend was also equivalent to last year. So I think building brand awareness, opening new stores, having people be more familiar with our proposition was a winning combination for us in the cyber period. And Debbie, what would you add?

Debbie Propst: I would add the assortment acceleration that we've been pursuing. With our collection count up 22% year on year. Is really helping to contribute to that growth as well.

Philip Bley: Awesome. Very helpful. Thank you all, and have a great holiday.

Debbie Propst: You too.

Operator: Next question comes from the line of Greg Burns with Sidoti and Company. Please go ahead.

Greg Burns: Good evening. Just to follow-up on the retail momentum Are you seeing with the assortment growth, are you seeing bigger bigger order order sizes, more more more net customers coming through your your retail locations in e-commerce or, you know, more engagement with existing customers higher higher order rates? Like, what what is the dynamic you're seeing within your your customer segment?

Debbie Propst: Thanks for the question, Greg. I'd say there's two real highlights that we're seeing. Our average order value is up year on year beyond our pricing increases net pricing increases are only about 2.5% year on year. Thanks to our sourcing strategy, proves to have, you know, 70% of our COGS in North America from North America. So we've been able to be we've been able to be more conservative in our pricing increases. But average order value up That's really being driven by the assortment expansion that we're doing as well as design services as we continue to drive up the penetration of those in stores.

Andi Owen: And I think through opening stores and new markets, we're obviously attracting new customers to the brands as well. Greg, so it's a combination of those things. Absolutely.

Debbie Propst: Seeing greater demand of our new customers than we have historically as well.

Greg Burns: Yep. Okay. And could you talk about the the kind of the road map to doubling the store store count Is that are are you gonna stay on this kind of 14 to 15 stores a year? Is that your thought right now? And how should we think about maybe the margin profile of that business? Like, are we are you gonna operate it kind of at this low single digit range for the foreseeable future? How should we think about maybe leverage on some of these investments starting to show through?

Debbie Propst: So, yes, we are planning to open in the range of 14 to 16 a year. And as you can imagine, we have leases signed through middle to back half of next fiscal year. Already. We have seasonality in our operating income, so the back half of the year always looks better than the front half of our our year based on largely where marketing spend falls in support of the cyber period. And we expect by the beginning of next fiscal year we'll start to see accretive operating income dollars from these new store investments.

Andi Owen: I think, Greg, as we've mentioned to you guys a few quarters now, we're sort of in the depth of investment right now to open new stores. And as we get into Q3 and Q4, you'll start to see that impact on our bottom line. Get smaller and smaller. As the new stores begin to add revenue to really offset that investment. So we're optimistic that that will turn around in Q4 and Q1 of next year. I will start to leverage some of the overhead and expense Okay. So the like, a a gross five to six a quarter net declining starting to decline as we move into next fiscal year. That that net number will start to decline.

Debbie Propst: That's right. Yes.

Greg Burns: Okay. Alright. Thank you.

Andi Owen: Well, thank you.

Operator: Your next question comes from the line of Doug Lane with Water Tower Research. Please go ahead.

Doug Lane: Yeah. Hi. Good evening, everybody. Just looking at the at the top line here with the the beat in the first quarter, the beat in the second quarter and the third quarters, pretty meaningfully above consensus. And your orders went from down mid-single digits to up mid-single digits sequentially. So something's getting better out there, and I don't know. What it sort of goes counter to what I'm reading anyway about the macro. So what are the two or three key macro trends that are really starting to work here? Is it back to office? Or really, what's going on?

Andi Owen: I think in the contract business, globally, probably primarily in North America, but definitely globally, we are seeing return to office really taking off. I think the debate about whether to be together is is kind of over. And so we are busy at our showrooms. We're busy at our corporate headquarters. We are seeing people make decisions faster. We're seeing orders that are coming through our funnel with more velocity and less people waiting as long as they were waiting during COVID. So I think the impetus is there. Think some of the noise you see in the economy and from a macro standpoint is also driving senior leaders in organizations to get more serious about their spaces and more serious about bringing people together. And it helps us a lot especially in class A spaces. So I think we're in the right place at the right time from a standpoint. And then international, we have a ton of growth potential just in general. We aren't in as many markets as we could be. We can add dealers and still gain a lot of market share. That business tends to be a little lumpier with the size of orders so you really have to look at a six month, nine month, twelve month trend to understand the growth potential there, but at very enviable margins. And I think with retail, we're in a really good spot. We're attracting consumer right now. That is resilient and that is attracted to the proposition that we're offering. So I think we're in a really good place in both sides of our business and in all channels.

Doug Lane: No question. Something's really coming together there. So what shifting gears a little bit with the consolidation going on in the industry. How have you thought about or what changes are you thinking about with in reaction to the consolidation now that you've had about six months or so to digest it?

Andi Owen: Listen, I think we've been down that road. We know how hard consolidations are. We think the industry the contract industry has definitely shrunk, so consolidation in the end is good for everyone. We know that consolidations and integrations can be distracting, so we plan to definitely be on the front foot now that we're on the other side of that.

Doug Lane: That's true. You've been through a lot of consolidation yourself over the years. And just finally on capital allocation, can what is the is there a target for a leverage ratio here? You seem to be hovering just under three times. And is that sort of target, a soft target of where you want to be? And then how do you think about capital expenditures in share repurchases in that context?

Kevin Veltman: Yeah. So the way we're thinking about capital allocation right now is, one, you've heard us talk about some of the growth investments that we're making sure we can fund, and so we feel well positioned with the balance sheet to fund those. Paying down debt is the second priority. Would see kind of a midterm target to get to that two to two and a half turns range from the 2.87 are now as we continue to pay that down, those would be the first two priorities and then obviously continuing to maintain dividend at periodic share repurchase to offset dilution.

Doug Lane: Okay. That's helpful. Thank you.

Operator: There are no further questions. We turn the floor back to CEO, Andi Owen, for any closing remarks.

Andi Owen: Thank you again, everyone, for joining us on the call tonight. With solid order momentum across every segment, and encouraging signals in our markets we were entering the third quarter with confidence Our teams remain focused on delivering operational excellence, scaling innovation, executing against our strategic priorities. We appreciate your support. Wish you all happy holidays and look forward to updating you next quarter. Thank you.

Operator: Ladies and gentlemen, this concludes today's call. Thank you all for joining. You may now disconnect.