

www.steelcase.com

NYSE: SCS



steelcase inc

September 19, 2013

SECOND QUARTER FISCAL 2014 RESULTS

Quarter ended August 23, 2013

WEBCAST

Thursday, September 19, 2013

steelcase inc

Forward-looking statements

From time to time, in written and oral statements, the company discusses its expectations regarding future events and its plans and objectives for future operations. These forward-looking statements generally are accompanied by words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "may," "possible," "potential," "predict," "project," or other similar words, phrases or expressions. Forward-looking statements involve a number of risks and uncertainties that could cause actual results to vary from the company's expectations because of factors such as, but not limited to, competitive and general economic conditions domestically and internationally; acts of terrorism, war, governmental action, natural disasters and other Force Majeure events; changes in the legal and regulatory environment; restructuring activities; changes in raw materials and commodity costs; currency fluctuations; changes in customer demands; and the other risks and contingencies detailed in the company's most recent Annual Report on Form 10-K and its other filings with the Securities and Exchange Commission. Steelcase undertakes no obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

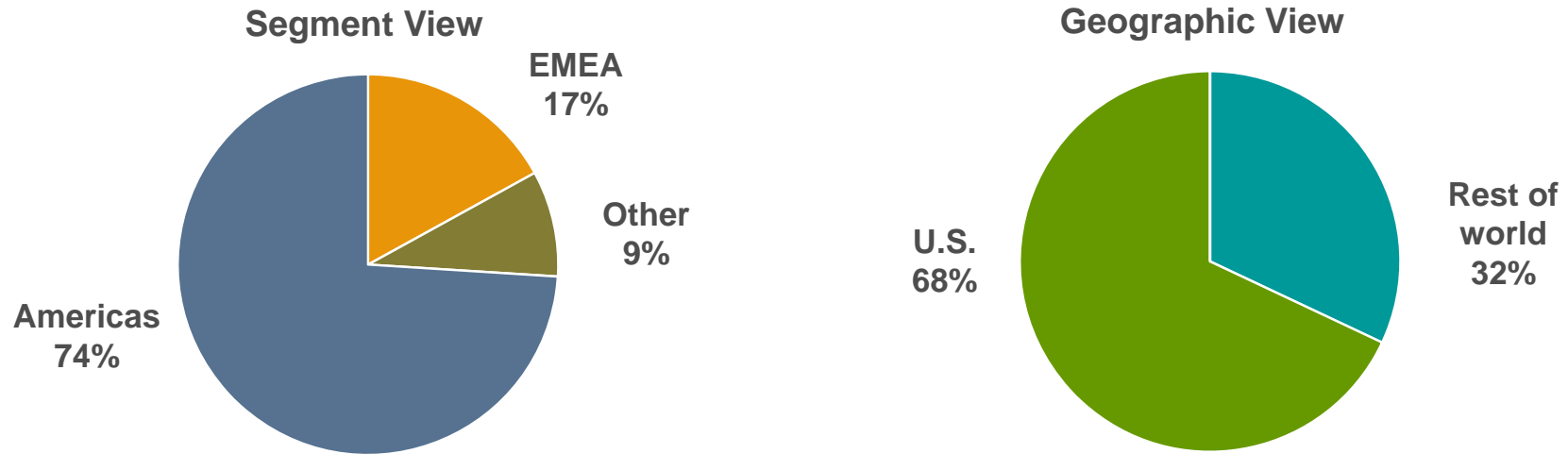
Updating of information

This presentation is provided as a supplement to our earnings release conference call and webcast on the date stated on the cover and is intended to be read in connection with the information provided therein and the related earnings press release. The information contained in this presentation is provided as of the date stated on the cover and may be superseded by information disclosed in our subsequent Form 10-Q, Form 10-K or other filings with the Securities and Exchange Commission. We undertake no obligation to update, amend or clarify this presentation, or any forward-looking statements included herein, whether as a result of new information, future events or otherwise.

Basis of presentation

Reference to a year relates to the fiscal year, ended in February of the year indicated, rather than the calendar year, unless indicated by a specific date. Additionally, Q1, Q2, Q3 and Q4 reference the first, second, third and fourth quarter, respectively, of the fiscal year indicated. All amounts are in millions, except share and per share data, data presented as a percentage or as otherwise indicated.

Q2 2014 results	slide
• Steelcase Inc.	4
• Americas Segment	10
• EMEA Segment	11
• Other Category	12
Q3 2014 outlook	13
Supplemental slides	14



BUSINESS SEGMENTS

- The Americas segment serves customers in the U.S., Canada and Latin America with a portfolio of integrated architecture, furniture and technology products marketed to corporate, government, healthcare, education and retail customers through the Steelcase, Coalesse, Details, Nurture by Steelcase and Turnstone brands.
- The EMEA segment serves customers in Europe, the Middle East and Africa primarily under the Steelcase and Coalesse brands, with an emphasis on freestanding furniture systems, storage and seating solutions.
- The Other category includes Asia Pacific, Designtex and PolyVision.

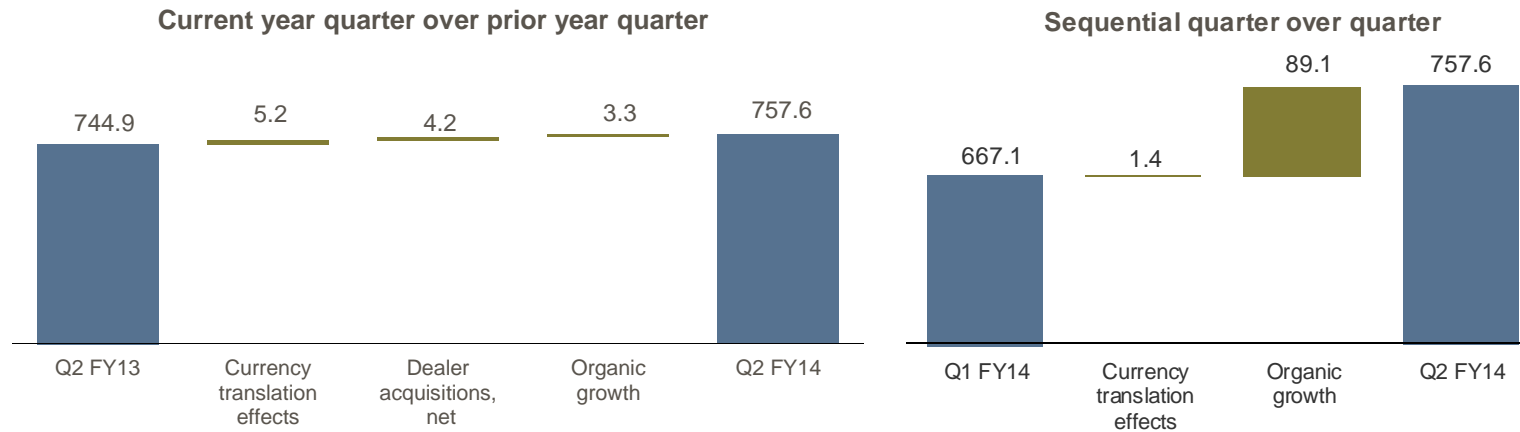
	(Unaudited)				(Unaudited)	
	Three Months Ended				Three Months Ended	
	August 23, 2013		August 24, 2012		May 24, 2013	
Revenue	\$ 757.6	100.0%	\$ 744.9	100.0%	\$ 667.1	100.0%
Cost of sales	513.4	67.8	513.4	68.9	457.2	68.5
Restructuring costs	<u>(0.1)</u>	<u>-</u>	<u>3.4</u>	<u>0.5</u>	<u>0.2</u>	<u>-</u>
Gross profit	244.3	32.2	228.1	30.6	209.7	31.5
Operating expenses	188.9	24.9	181.0	24.3	185.1	27.8
Restructuring costs	<u>3.4</u>	<u>0.4</u>	<u>0.3</u>	<u>-</u>	<u>4.2</u>	<u>0.6</u>
Operating income	52.0	6.9	46.8	6.3	20.4	3.1
Interest expense	(4.5)	(0.6)	(4.6)	(0.6)	(4.4)	(0.7)
Investment income (loss)	(1.8)	(0.2)	1.3	0.2	0.6	0.1
Other income, net	<u>0.6</u>	<u>-</u>	<u>1.7</u>	<u>0.2</u>	<u>1.2</u>	<u>0.2</u>
Income before income taxes	46.3	6.1	45.2	6.1	17.8	2.7
Income tax expense	18.7	2.5	15.7	2.1	4.6	0.7
Net income	<u>\$ 27.6</u>	<u>3.6%</u>	<u>\$ 29.5</u>	<u>4.0%</u>	<u>\$ 13.2</u>	<u>2.0%</u>
Basic earnings per share	\$ 0.22		\$ 0.23		\$ 0.10	

- **Net income** – We reported net income of \$27.6, or \$0.22 per share in Q2 2014, which included pre-tax restructuring costs of \$3.3, or approximately \$0.02 per share (associated with actions launched in EMEA during Q1 2014).
- **Operating income** – Current quarter operating income of \$52.0 compares to prior year operating income of \$46.8. Current quarter results included \$3.3 of restructuring costs compared to \$3.7 of restructuring costs in the prior year. Excluding restructuring costs, adjusted operating income of \$55.3 increased \$4.8 compared to the prior year. The improvement was driven by favorable business mix and net benefits from pricing adjustments and recent restructuring actions in the Americas, partially offset by reduced profitability in EMEA and the Other category.

Sequentially, reported operating income increased by \$31.6 and adjusted operating income increased by \$30.5. The sequential increase in operating income was largely driven by organic revenue growth and favorable business mix in the Americas.

- **Investment income, other income, net and income tax expense** – Investment income decreased due to reductions in the cash surrender value of variable life company-owned life insurance policies in the current quarter, which compared to gains in the prior year. Other income, net decreased primarily due to higher foreign currency losses, partially offset by higher income from joint ventures. Income tax expense of \$18.7 in the current quarter reflects an estimated effective tax rate for the full fiscal year of approximately 40% and included \$1.0 of net discrete tax benefits.

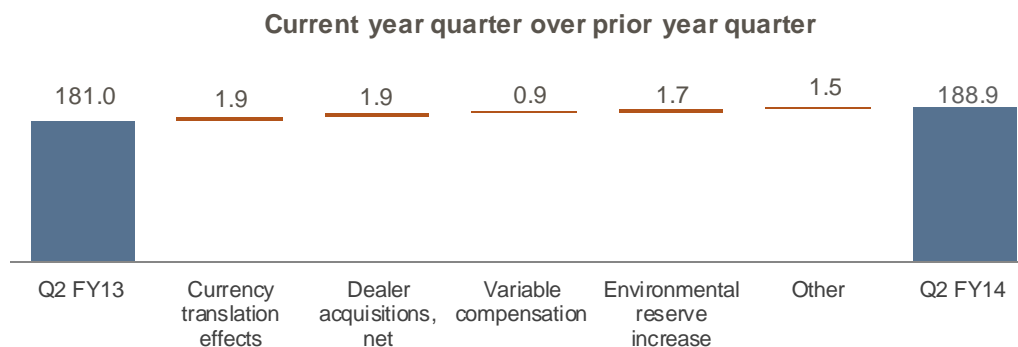
Revenue



- Revenue** – Revenue increased \$12.7 in Q2 2014 compared to Q2 2013. The revenue comparison to the prior year was impacted by \$5.2 of favorable currency translation effects and \$4.2 from dealer acquisitions, net of a divestiture. After adjusting for these impacts, organic revenue growth was \$3.3 or less than 1%. Organic revenue growth in the Americas and the Other category of 4% and 3%, respectively, was substantially offset by an organic revenue decline of 13% in EMEA.

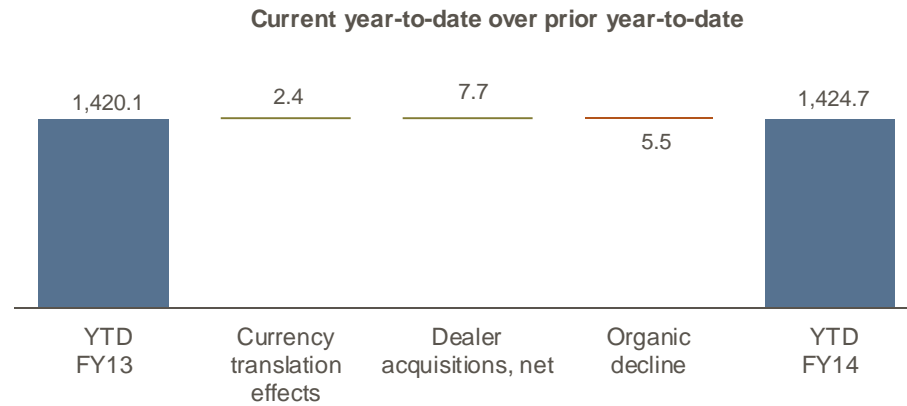
On a sequential quarter basis, Q2 2014 revenue increased \$90.5 compared to Q1 2014. After adjusting for favorable currency translation effects of \$1.4, the organic revenue increase was \$89.1 or 13%, which was larger than normal seasonality due to requested shipment dates associated with first quarter orders in the Americas being more heavily weighted toward the second quarter.

Operating expenses



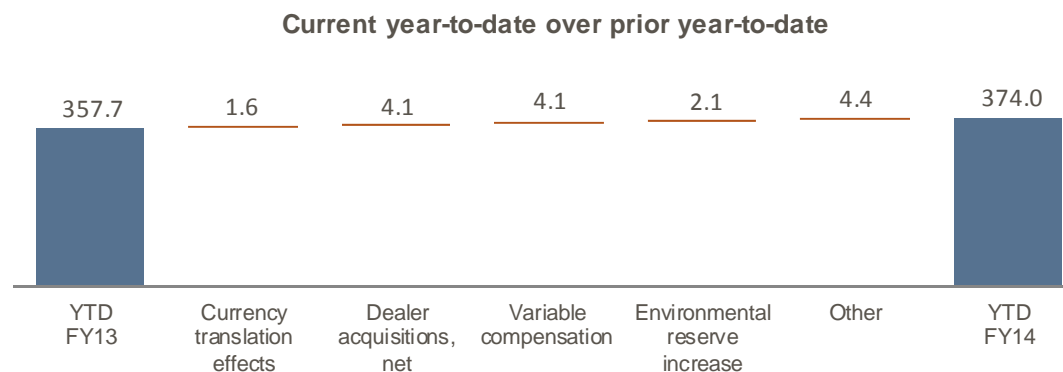
- Operating expenses** – Current quarter operating expenses of \$188.9 represent an increase of \$7.9 compared to the prior year operating expenses of \$181.0. The quarter-over-quarter comparison included unfavorable currency translation effects of \$1.9, additional operating expenses of \$1.9 related to dealer acquisitions, net of a divestiture, \$0.9 of higher variable compensation, and \$1.7 of increased environmental reserves. The remaining increase of \$1.5 primarily related to increased spending on marketing and other initiatives in the Americas, net of various cost reduction efforts in EMEA and Asia Pacific.

Revenue



- Revenue** – The year-to-date revenue comparison to the prior year was impacted by \$2.4 of favorable currency translation effects, and \$7.7 from dealer acquisitions, net of a divestiture. After adjusting for these impacts, organic revenue decline was \$5.5 or less than 1%. We realized organic revenue growth of 2% in the Americas, while EMEA and the Other category had organic revenue declines of 8% and 3%, respectively.

Operating expenses



- Operating expenses** – Year-to-date operating expenses of \$374.0 represent an increase of \$16.3 compared to the prior year operating expenses of \$357.7. The year-over-year comparison included unfavorable currency translation effects of \$1.6, additional operating expenses of \$4.1 related to dealer acquisitions, net of a divestiture, \$4.1 of higher variable compensation, and \$2.1 of increased environmental reserves. The remaining increase of 4.4 primarily related to increased spending on marketing and other initiatives in the Americas, net of various cost reduction efforts in EMEA and Asia Pacific.

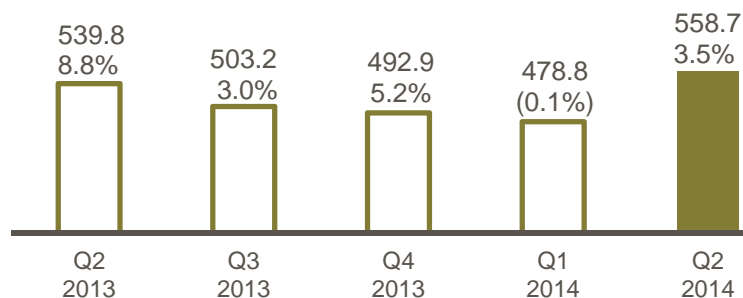
Quarterly cash flow data (unaudited)

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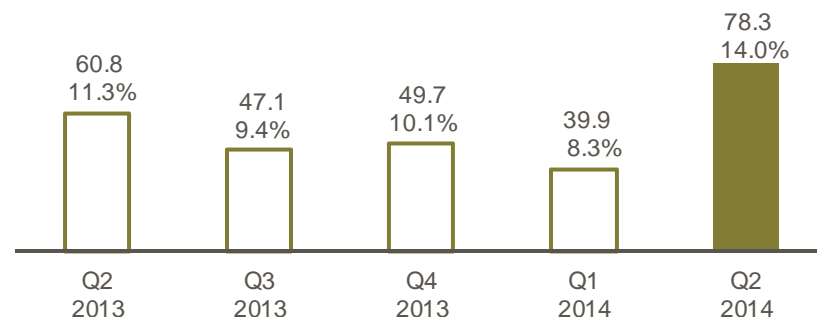
	<u>August 24,</u> <u>2012</u>	<u>November 23,</u> <u>2012</u>	<u>February 22,</u> <u>2013</u>	<u>May 24,</u> <u>2013</u>	<u>August 23,</u> <u>2013</u>
OPERATING ACTIVITIES					
Net income	\$ 29.5	\$ 23.6	\$ (27.5)	\$ 13.2	\$ 27.6
Depreciation and amortization	13.8	15.1	15.8	14.1	14.8
Changes in cash surrender value of company-owned life insurance	(2.8)	0.8	5.5	(1.2)	1.5
Goodwill impairment charges	-	-	59.9	-	-
Deferred income taxes	3.8	3.5	(23.4)	0.7	(0.6)
Non-cash stock compensation	1.4	1.4	1.8	10.8	1.7
Changes in accounts receivable, net, inventories and accounts payable	(1.0)	4.0	22.4	(12.9)	(19.9)
Changes in employee compensation liabilities	10.4	31.7	0.4	(48.0)	16.7
Changes in other operating assets and liabilities	7.1	13.6	(15.5)	(16.4)	4.2
Other, net	3.9	6.9	18.1	0.4	10.4
Net cash provided by (used in) operating activities	<u>66.1</u>	<u>100.6</u>	<u>57.5</u>	<u>(39.3)</u>	<u>56.4</u>
INVESTING ACTIVITIES					
Capital expenditures	(15.7)	(24.1)	(24.1)	(18.4)	(18.0)
Changes in investments, net	0.6	(25.2)	(18.2)	56.6	0.1
Proceeds from the disposal of fixed assets	-	-	1.4	0.9	0.7
Other, net	(11.0)	(5.2)	5.1	(0.4)	(1.1)
Net cash provided by (used in) investing activities	<u>(26.1)</u>	<u>(54.5)</u>	<u>(35.8)</u>	<u>38.7</u>	<u>(18.3)</u>
FINANCING ACTIVITIES					
Dividends paid	(11.4)	(11.4)	(11.4)	(12.5)	(12.6)
Common stock repurchases	(7.6)	(0.5)	-	(31.7)	(0.1)
Other, net	0.9	(1.7)	2.8	(1.7)	(0.6)
Net cash used in financing activities	<u>(18.1)</u>	<u>(13.6)</u>	<u>(8.6)</u>	<u>(45.9)</u>	<u>(13.3)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>0.8</u>	<u>0.3</u>	<u>1.3</u>	<u>(0.8)</u>	<u>(0.1)</u>
Net increase (decrease) in cash and cash equivalents	22.7	32.8	14.4	(47.3)	24.7
Cash and cash equivalents, beginning of period	80.5	103.2	136.0	150.4	103.1
Cash and cash equivalents, end of period	<u>\$ 103.2</u>	<u>\$ 136.0</u>	<u>\$ 150.4</u>	<u>\$ 103.1</u>	<u>\$ 127.8</u>

Americas segment highlights – Q2 2014

Revenue (% change versus prior year)

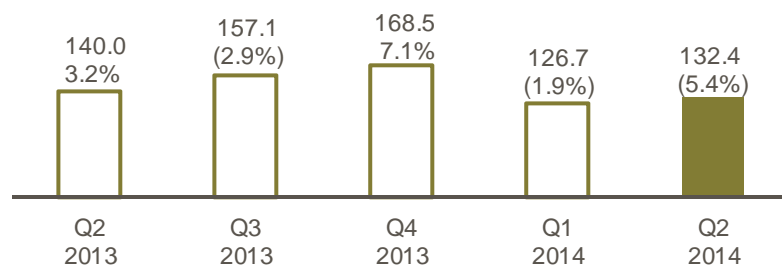


Adjusted operating income (% of revenue)

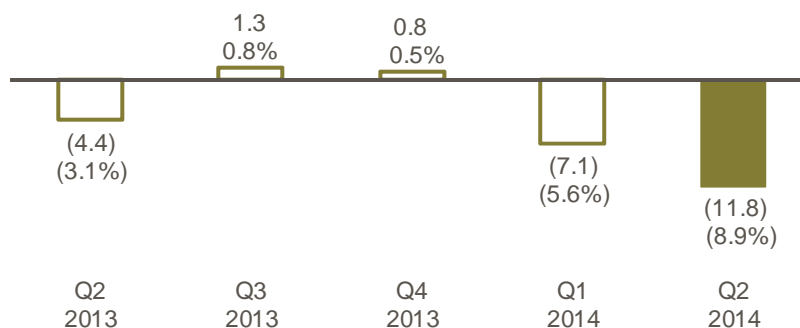


- Operating income** – Current quarter operating income of \$78.3 represents an increase of \$20.9 compared to prior year operating income of \$57.4. Current quarter results included net restructuring costs of zero compared to \$3.4 of restructuring costs in the prior year. Excluding restructuring costs, adjusted operating income increased \$17.5 due primarily to favorable business mix and net benefits from pricing adjustments and recent restructuring actions, offset in part by increased spending on marketing and other initiatives.
- Revenue** – Americas revenue increased \$18.9 or 3.5% in Q2 2014 compared to Q2 2013. After adjusting for \$0.8 of unfavorable currency translation effects, organic revenue growth was \$19.7, or 4%.
 - Product categories** – Six of nine categories experienced growth, led by Architectural Solutions, Details, and Nurture. The Wood category declined compared to a strong prior year.
 - Vertical markets** – Insurance Services, Education, and Health Care experienced strong growth while Federal Government continued to decline year-over-year and Energy declined significantly compared to a strong prior year.
 - Geographic regions** – Strength in the South and East Business Groups was more than enough to offset a decline in the West Business Group.
 - Contract type** – Project business had strong growth while continuing business grew modestly.

Revenue
(% change versus prior year)



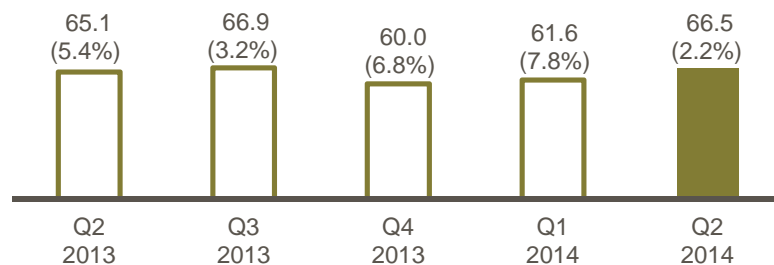
Adjusted operating income (loss)
(% of revenue)



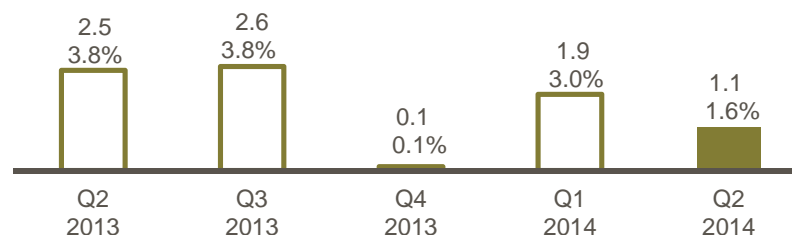
- Operating income (loss)** – Current quarter operating loss of \$15.1 represents a higher loss of \$10.7 compared to the prior year operating loss of \$4.4. Current year results include \$3.3 of restructuring costs compared to no restructuring costs in the prior year. Excluding restructuring costs, adjusted operating loss of \$11.8 increased by \$7.4. The higher operating loss was driven primarily by organic revenue decline, unfavorable pricing and business mix, offset in part by lower operating expenses.
- Revenue** – EMEA revenue decreased \$7.6 in Q2 2014 compared to Q2 2013. After adjusting for \$6.4 of favorable currency translation effects and \$4.2 related to dealer acquisition costs, net of a divestiture, organic revenue decline was \$18.2 or 13%. Growth in the export markets of the central, eastern and southern parts of Europe (as a group) and the Middle East and Africa (as a group) was more than offset by declines across Western Europe.

Other category highlights – Q2 2014

Revenue (% change versus prior year)



Adjusted operating income (% of revenue)



Other

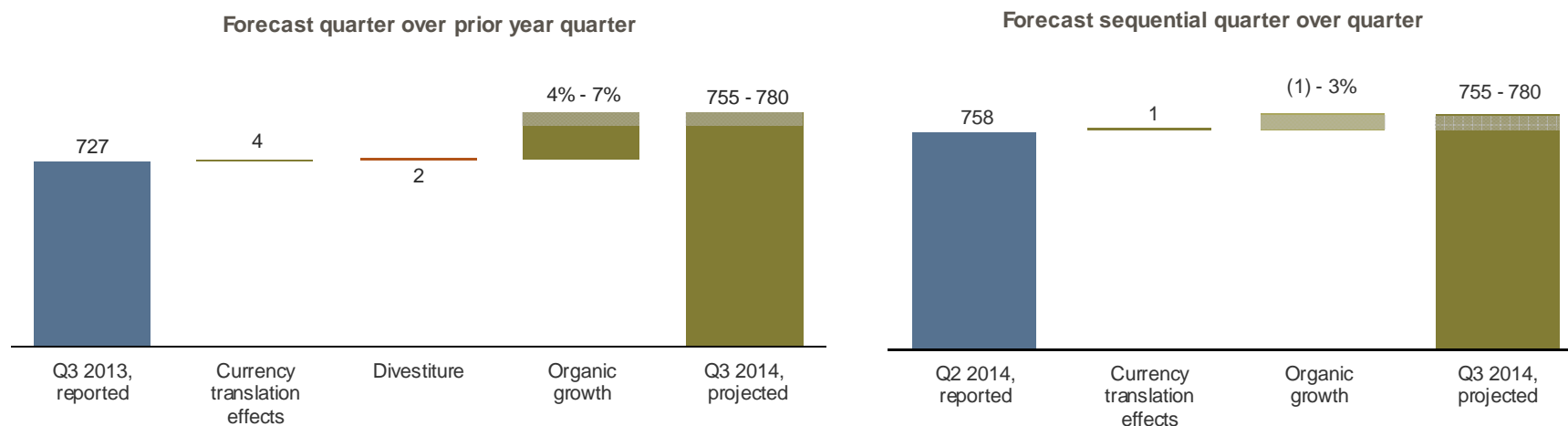
The Other category includes Asia Pacific, PolyVision and Designtex.

- **Operating income** – Current quarter operating income of \$1.1 represents a decrease of \$1.1 compared to prior year operating income of \$2.2. There were no restructuring charges recorded in the current year and \$0.3 of restructuring costs in the prior year. Excluding restructuring, adjusted operating results declined primarily due to lower operating income across Asia Pacific and Designtex.
- **Revenue** – Q2 2014 revenue increased \$1.4 or 2.2% compared to the prior year primarily due to PolyVision.

Corporate

- **Operating income (loss)** – Corporate costs increased by \$3.9 to \$12.3 in the current quarter compared to the prior year primarily due to an environmental reserve adjustment, earnings associated with deferred compensation and costs associated with a sub-lease of excess showroom capacity.

Revenue



Net income

Expect Q3 2014 net income in the range of \$0.23 - \$0.27 per share, including restructuring costs of approximately \$0.01 per share after-tax.

- Reported net income in the prior year was \$0.19 per share, including restructuring costs of approximately \$0.03 per share.

Revenue

Expect Q3 2014 revenue in the range of \$755 - \$780. Adjusted for the items below, we project organic revenue growth in the range of 4% to 7% compared to the prior year.

- This revenue estimate is based on a euro to U.S. dollar exchange rate assumption of 1.33 as of the end of Q2 2014, which compares to an average exchange rate of 1.29 for Q3 2013 and 1.32 for Q2 2014. This and other currency assumptions included in our third quarter revenue estimate are expected to have positive effects on the year-over-year comparison of approximately \$4 and on the sequential comparison of approximately \$1.
- Q3 2013 included revenue from a dealer which has since been divested.

Supplemental Slides

Non-GAAP financial measures

These webcast slides contain certain non-GAAP financial measures. A “non-GAAP financial measure” is defined as a numerical measure of a company’s financial performance that excludes or includes amounts so as to be 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. Pursuant to the requirements of Regulation G, the company has provided a reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measure.

The non-GAAP financial measures used within these webcast slides are: (1) organic revenue growth (decline), which represents the change in revenue excluding currency translation effects and the impacts of acquisitions and divestitures; and (2) adjusted operating income (loss), which represents operating income (loss), excluding restructuring costs and goodwill impairment charges. These measures are presented because management uses this information to monitor and evaluate financial results and trends. Therefore, management believes this information is also useful for investors.

Reconciliation of non - GAAP measures – organic revenue growth (decline)

Year over year organic revenue growth (decline) by segment Q2 2014 vs. Q2 2013

	Steelcase Inc.	Americas	EMEA	Other category
Q2 2013 revenue, reported	\$ 744.9	\$ 539.8	\$ 140.0	\$ 65.1
Divestiture	(2.0)	-	(2.0)	-
Currency translation effects*	5.2	(0.8)	6.4	(0.4)
Adjusted Q2 2013 revenue	748.1	539.0	144.4	64.7
Q2 2014 revenue, reported	\$ 757.6	\$ 558.7	\$ 132.4	\$ 66.5
Dealer acquisitions	(6.2)	-	(6.2)	-
Adjusted Q2 2014 revenue	751.4	558.7	126.2	66.5
Organic growth (decline) \$	\$ 3.3	\$ 19.7	\$ (18.2)	\$ 1.8
Organic growth (decline) %	0%	4%	(13%)	3%

Sequential organic revenue growth by segment Q2 2014 vs. Q1 2014

	Steelcase Inc.	Americas	EMEA	Other category
Q1 2014 revenue, reported	\$ 667.1	\$ 478.8	\$ 126.7	\$ 61.6
Currency translation effects*	1.4	(0.5)	1.3	0.6
Adjusted Q1 2014 revenue	668.5	478.3	128.0	62.2
Q2 2014 revenue, reported	757.6	558.7	132.4	66.5
Organic growth \$	\$ 89.1	\$ 80.4	\$ 4.4	\$ 4.3
Organic growth %	13%	17%	3%	7%

Projected organic revenue growth (decline)

	Year over year	Sequential
	Q3 2014 vs. Q3 2013	Q3 2014 vs. Q2 2014
Prior quarter revenue, reported	\$ 727	\$ 758
Divestiture	(2)	-
Currency translation effects**	4	1
Adjusted prior quarter revenue	729	759
Q3 2014 revenue, projected	755 - 780	755 - 780
Organic growth (decline) \$	\$ 26 - 51	\$ (4) - 21
Organic growth (decline) %	4% - 7%	(1)% - 3%

* Currency translation effects represent the estimated net effect of translating prior quarter or year-to-date foreign currency revenues using the average exchange rate during the current quarter or year-to-date.

** Currency translation effects represent the estimated net effect of translating prior quarter foreign currency revenues using the exchange rate at the end of the most recent quarter.

Reconciliation of non - GAAP measures – organic revenue growth (decline)

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Year over year organic revenue growth (decline) by segment

YTD 2014 vs. YTD 2013

	Steelcase Inc.	Americas	EMEA	Other category
YTD 2013 revenue, reported	\$ 1,420.1	\$ 1,019.0	\$ 269.2	\$ 131.9
Divestiture	(3.3)	-	(3.3)	-
Currency translation effects*	2.4	(1.9)	4.7	(0.4)
Adjusted YTD 2013 revenue	1,419.2	1,017.1	270.6	131.5
YTD 2014 revenue, reported	\$ 1,424.7	\$ 1,037.5	\$ 259.1	\$ 128.1
Dealer acquisitions	(11.0)	-	(11.0)	-
Adjusted YTD 2014 revenue	1,413.7	1,037.5	248.1	128.1
Organic growth (decline) \$	\$ (5.5)	\$ 20.4	\$ (22.5)	\$ (3.4)
Organic growth (decline) %	(0%)	2%	(8%)	(3%)

* Currency translation effects represent the estimated net effect of translating prior quarter or year-to-date foreign currency revenues using the average exchange rate during the current quarter or year-to-date.

Reconciliation of non - GAAP measures – adjusted operating income (loss) (\$ and % of revenue)

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Steelcase Inc.	Q2 2013		Q3 2013		Q4 2013		Q1 2014		Q2 2014	
	\$	%	\$	%	\$	%	\$	%	\$	%
Operating income (loss)	\$ 46.8	6.3%	\$ 38.4	5.3%	\$ (45.2)	(6.3%)	\$ 20.4	3.1%	\$ 52.0	6.9%
Add: restructuring costs	3.7	0.5%	6.0	0.8%	19.9	2.8%	4.4	0.6%	3.3	0.4%
Add: goodwill impairment charges	-	-	-	-	59.9	8.3%	-	-	-	-
Adjusted operating income	\$ 50.5	6.8%	\$ 44.4	6.1%	\$ 34.6	4.8%	\$ 24.8	3.7%	\$ 55.3	7.3%

Americas segment	Q2 2013		Q3 2013		Q4 2013		Q1 2014		Q2 2014	
	\$	%	\$	%	\$	%	\$	%	\$	%
Operating income	\$ 57.4	10.6%	\$ 42.1	8.4%	\$ 34.3	7.0%	\$ 38.7	8.1%	\$ 78.3	14.0%
Add: restructuring costs	3.4	0.7%	5.0	1.0%	15.4	3.1%	1.2	0.2%	-	-
Add: goodwill impairment charges	-	-	-	-	-	-	-	-	-	-
Adjusted operating income	\$ 60.8	11.3%	\$ 47.1	9.4%	\$ 49.7	10.1%	\$ 39.9	8.3%	\$ 78.3	14.0%

EMEA segment	Q2 2013		Q3 2013		Q4 2013		Q1 2014		Q2 2014	
	\$	%	\$	%	\$	%	\$	%	\$	%
Operating income (loss)	\$ (4.4)	(3.1%)	\$ 0.8	0.5%	\$ (38.5)	(22.8%)	\$ (10.3)	(8.1%)	\$ (15.1)	(11.4%)
Add: restructuring costs	-	-	0.5	0.3%	4.2	2.5%	3.2	2.5%	3.3	2.5%
Add: goodwill impairment charges	-	-	-	-	35.1	20.8%	-	-	-	-
Adjusted operating income (loss)	\$ (4.4)	(3.1%)	\$ 1.3	0.8%	\$ 0.8	0.5%	\$ (7.1)	(5.6%)	\$ (11.8)	(8.9%)

Other category	Q2 2013		Q3 2013		Q4 2013		Q1 2014		Q2 2014	
	\$	%	\$	%	\$	%	\$	%	\$	%
Operating income (loss)	\$ 2.2	3.4%	\$ 2.1	3.1%	\$ (25.0)	(41.7%)	\$ 1.9	3.0%	\$ 1.1	1.6%
Add: restructuring costs	0.3	0.4%	0.5	0.7%	0.3	0.5%	-	-	-	-
Add: goodwill impairment charges	-	-	-	-	24.8	41.3%	-	-	-	-
Adjusted operating income	\$ 2.5	3.8%	\$ 2.6	3.8%	\$ 0.1	0.1%	\$ 1.9	3.0%	\$ 1.1	1.6%