STEELCASE INC
Form 10-K
April 14, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 24, 2017
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-13873

STEELCASE INC.
(Exact name of registrant as specified in its charter)

Michigan	38-0819050
(State or other jurisdiction of incorporation or organization)	(IRS employer identification number)
901 44th Street SE Grand Rapids, Michigan	49508
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (616) 247-2710
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock	New York Stock Exchange

Securities registered pursuant to 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨ Emerging growth company ¨

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates, computed by reference to the closing price of the Class A Common Stock on the New York Stock Exchange, as of August 26, 2016 (the last day of the registrant’s most recently completed second fiscal quarter) was approximately $1.2 billion. There is no quoted market for registrant’s Class B Common Stock, but shares of Class B Common Stock may be converted at any time into an equal number of shares of Class A Common Stock.

As of April 10, 2017, 86,903,762 shares of the registrant’s Class A Common Stock and 31,097,549 shares of the registrant’s Class B Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant’s definitive proxy statement for its 2017 Annual Meeting of Shareholders, to be held on July 12, 2017, are incorporated by reference in Part III of this Form 10-K.

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PART I
Item 1. Business:
The following business overview is qualified in its entirety by the more detailed information included elsewhere or incorporated by reference in this Annual Report on Form 10-K (“Report”). As used in this Report, unless otherwise expressly stated or the context otherwise requires, all references to “Steelcase,” “we,” “our,” “Company” and similar references are to Steelcase Inc. and its subsidiaries in which a controlling interest is maintained. Unless the context otherwise indicates, reference to a year relates to the fiscal year, ended in February of the year indicated, rather than a calendar year. 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.
Overview
At Steelcase, our purpose is to unlock human promise by creating great experiences at work, wherever work happens, and in environments that include education and healthcare. Through our family of brands that include Steelcase®, Coalesse®, Designtex®, PolyVision® and Turnstone®, we offer a comprehensive portfolio of solutions that support the social, economic and sustainability needs of people and are inspired by the insights gained from our human-centered research process. We are a globally integrated enterprise, headquartered in Grand Rapids, Michigan, U.S.A., with approximately 11,700 employees. Steelcase was founded in 1912 and became publicly traded in 1998, and our stock is listed on the New York Stock Exchange under the symbol “SCS”.
Our growth strategy continues to focus on translating our research-based insights into products, applications and experiences that will help the world’s leading organizations amplify the performance of their people, teams and enterprise. We help our customers create workplace destinations that augment human interaction by supporting the physical, cognitive and emotional needs of their people, while also optimizing the value of their real estate investments. We continue to invest in research and product development and have launched new products, applications and experiences designed to address the significant trends that are impacting the workplace, such as global integration, disruptive technologies, worker mobility, distributed teams and the need for enhanced collaboration and innovation.
We also continue to focus on growth through leveraging our global scale. Our global scale allows us to provide local differentiation, as we serve customers around the globe through significant sales, manufacturing and administrative operations in the Americas, Europe and Asia Pacific. We remain committed to our strategy as a globally integrated enterprise and growing our presence in emerging markets alongside our global customers and where we believe we can serve the needs of workers and organizations.
We market our products and services primarily through a network of independent and company-owned dealers and also sell directly to end-use customers. We extend our reach with a limited presence in retail and web-based sales channels.
Our Offerings
Our brands provide an integrated portfolio of furniture settings, user-centered technologies and interior architectural products across a range of price points. Our furniture portfolio includes panel-based furniture systems, storage, desks, benches, tables and complementary products such as worktools. Our seating products include task chairs which are highly ergonomic, seating that can be used in collaborative or casual settings and specialty seating for specific vertical markets such as healthcare and education. Our technology solutions support group collaboration by integrating furniture and technology. Our interior architectural products include full and partial height walls and doors. We also offer services designed to reduce costs and enhance the performance of people, wherever they work. Among these services are workplace strategy consulting, lease origination services, furniture and asset management and hosted spaces.
Steelcase
The Steelcase brand takes our insights from research and delivers high performance, sustainable work environments while striving to be a trusted partner. Being a trusted partner means understanding and helping our customers and partners who truly seek to elevate their performance. The Steelcase brand's core customers are leading organizations (such as corporations, healthcare organizations, colleges/universities and government

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entities) that are often large with ever-changing complex needs and have an increasingly global reach. We strive to meet their diverse needs while minimizing complexity by using a platform approach—from product components to common processes—wherever possible.

Steelcase sub-brands include:

- Steelcase Health, which is focused on creating healthcare environments that enable empathy, empowerment and connection for patients, care partners and providers engaged in the healthcare experience.
- Steelcase Education, which is focused on helping schools, colleges and universities create the most effective, rewarding and inspiring "active learning" environments to meet the evolving needs of students and educators.

Coalesse

Coalesse offers a collection of furnishings that expresses a new freedom at work. Coalesse targets the rapidly growing crossover and ancillary market—homes and offices, meeting rooms and social spaces, private retreats and public places—and is addressing the fluid intersections of work and life where boundaries are collapsing and creativity is increasing.

Designtex

Designtex offers applied materials that enhance environments and is a leading resource for applied surface knowledge, innovation and sustainability. Designtex products are premium fabrics and surface materials and imaging solutions designed to enhance seating, walls, work stations and floors and can provide privacy, way-finding, motivation, communications and artistic expression.

PolyVision

PolyVision is the world's leading supplier of ceramic steel surfaces for use in various applications including static whiteboards and chalkboards used in educational institutions and architectural panels or special applications for commercial or infrastructure projects.

Turnstone

Turnstone is based on the belief that the world needs more successful entrepreneurs and small businesses and that great spaces to work can help that happen. Turnstone makes it easier for these companies to create insight-led places to work, going to market through our dealer channel or using web-based tools.

Reportable Segments

We operate on a worldwide basis within our Americas and EMEA reportable segments plus an Other category. Additional information about our reportable segments, including financial information about geographic areas, is contained in Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 18 to the consolidated financial statements.

Americas Segment

Our Americas segment serves customers in the United States (“U.S.”), Canada, the Caribbean Islands and Latin America. Our portfolio of integrated architecture, furniture and technology products is marketed to corporate, government, healthcare, education and retail customers through the Steelcase, Coalesse and Turnstone brands.

We serve Americas customers mainly through approximately 400 independent and company-owned dealer locations, and we also sell directly to end-use customers. Our end-use customers tend to be larger multinational, regional or local companies and are distributed across a broad range of industries and vertical markets, including healthcare, manufacturing, higher education, financial services, insurance, information technology and government. No industry or vertical market individually represented more than 13% of the Americas segment revenue in 2017.

Each of our dealers maintains its own sales force which is complemented by our sales representatives who work closely with our dealers throughout the selling process. The largest independent dealer in the Americas accounted for approximately 6% of the segment’s revenue in 2017, and the five largest independent dealers collectively accounted for approximately 18% of the segment’s revenue in 2017.

In 2017, the Americas segment recorded revenue of $2,231.9, or 73.6% of our consolidated revenue, and as of the end of the year had approximately 7,900 employees, of which approximately 5,300 related to manufacturing.

The Americas office furniture industry is highly competitive, with a number of competitors offering similar categories of products. The industry competes on a combination of insight, product performance, design, price and relationships with customers, architects and designers. Our most significant competitors in the U.S. are Haworth, Inc., Herman Miller, Inc., HNI Corporation and Knoll, Inc. Together with Steelcase, domestic revenue from these companies represents approximately one-half of the U.S. office furniture industry.

EMEA Segment

Our 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. Our largest presence is in Western Europe, where we believe we are among the market leaders in Germany, France and Spain. In 2017, approximately 84% of EMEA revenue was from Western Europe. The remaining revenue was from other parts of Europe, the Middle East and Africa. No individual country in the EMEA segment represented more than 6% of our consolidated revenue in 2017.

We serve EMEA customers through approximately 350 independent and company-owned dealer locations. No single independent dealer in the EMEA segment accounted for more than 3% of the segment’s revenue in 2017. The five largest independent dealers collectively accounted for approximately 11% of the segment’s revenue in 2017. In certain geographic markets, we sell directly to end-use customers. Our end-use customers tend to be larger multinational, regional or local companies spread across a broad range of industries and vertical markets, including financial services, higher education, healthcare, government and information technology.

In 2017, our EMEA segment recorded revenue of $503.9, or 16.6% of our consolidated revenue, and as of the end of the year had approximately 2,100 employees, of which approximately 1,000 related to manufacturing.

The EMEA office furniture market is highly competitive and fragmented. We compete with many local and regional manufacturers in many different markets. In several cases, these competitors focus on specific product categories.

Other Category

The Other category includes Asia Pacific, Designtex and PolyVision.

Asia Pacific serves customers in the People’s Republic of China (including Hong Kong), India, Australia, Japan, Singapore, Korea, Taiwan, Malaysia and other countries in Southeast Asia, primarily under the Steelcase brand with an emphasis on freestanding furniture systems, seating and storage solutions. We sell directly and through approximately 50 independent dealer locations to end-use customers. Our end-use customers tend to be larger multinational or regional companies spread across a broad range of industries and are located in both mature and emerging markets. Our competition in Asia Pacific is fragmented and includes large global competitors as well as many regional and local manufacturers.

Designtex primarily sells textiles, wall coverings and surface imaging solutions specified by architects and designers directly to end-use customers through a direct sales force primarily in North America.

PolyVision manufactures ceramic steel surfaces for use in various applications globally, including static whiteboards and chalkboards sold through third party fabricators and distributors to the primary and secondary education markets and architectural panels and other special applications sold through general contractors for commercial and infrastructure projects.

In 2017, the Other category accounted for $296.6, or 9.8% of our consolidated revenue, and as of the end of the year had approximately 1,700 employees, of which approximately 900 related to manufacturing.

Corporate

Corporate expenses include unallocated portions of shared service functions such as information technology, corporate facilities, finance, human resources, research, legal and customer aviation.

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Joint Ventures and Other Equity Investments

We enter into joint ventures and other equity investments from time to time to expand or maintain our geographic presence, support our distribution network or invest in new business ventures, complementary products or services. As of February 24, 2017, our investment in these unconsolidated joint ventures and other equity investments totaled $50.5. Our share of the earnings from joint ventures and other equity investments is recorded in Other income (expense), net on the Consolidated Statements of Income.

Customer and Dealer Concentrations

Our largest customer accounted for approximately 1% of our consolidated revenue in 2017, and our five largest customers collectively accounted for approximately 5% of our consolidated revenue. However, these percentages do not include revenue from various U.S. federal government agencies. In 2017, our sales to U.S. federal government agencies represented approximately 3% of our consolidated revenue. We do not believe our business is dependent on any single or small number of end-use customers, the loss of which would have a material adverse effect on our business.

No single independent dealer accounted for more than 5% of our consolidated revenue in 2017. The five largest independent dealers collectively accounted for approximately 13% of our consolidated revenue in 2017. We do not believe our business is dependent on any single dealer, the loss of which would have a sustained material adverse effect upon our business.

Working Capital

Our accounts receivable are from our dealers and direct-sale customers. Payment terms vary by country and region. The terms of our Americas segment, and certain markets within the EMEA segment, encourage prompt payment from dealers by offering an early settlement discount. Other international markets have, by market convention, longer payment terms. We are not aware of any special or unusual practices or conditions related to working capital items, including accounts receivable, inventories and accounts payable, which are significant to understanding our business or the industry at large.

Backlog

Our products are generally manufactured and shipped within two to six weeks following receipt of an order; however, in recent years our mix of project business has increased and customer-requested shipment dates have increasingly extended beyond historical averages. Nevertheless, we do not view the amount of backlog at any particular time as a meaningful indicator of longer-term shipments.

Global Manufacturing and Supply Chain

Manufacturing and Logistics

We have manufacturing operations throughout North America (in the U.S. and Mexico), Europe (in France, Germany, Spain, the Czech Republic and Belgium) and Asia (in China, Malaysia and India). Our global manufacturing operations are centralized under a single organization to serve our customers' needs across multiple brands and geographies.

Our manufacturing model is predominately make-to-order with lead times typically ranging from two to six weeks. We manufacture our products using lean manufacturing principles, which allow us to achieve efficiencies and cost savings and minimize the amount of inventory on hand. As a result, we largely purchase direct materials and components as needed to meet demand. We have evolved our manufacturing and supply chain systems significantly over the last two decades by implementing continuous one-piece flow, platforming our processes and product offerings and developing a global network of integrated suppliers. We also purchase finished goods manufactured by third parties predominantly on a make-to-order basis.

These changes to our manufacturing model have reduced the capital needs of our business and the footprint of our manufacturing space and have allowed us to improve quality, delivery performance and the customer experience. We continue to identify opportunities to improve the fitness of our business and strengthen our long-term competitiveness. In addition to our ongoing focus on enhancing the efficiency of our manufacturing operations, we also seek to reduce costs through our global sourcing effort. We have capitalized on the platforming of our product offering and

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are capturing raw material and component cost savings available through lower cost suppliers around the globe. This platforming of our product offering and global development of potential sources of supply has enhanced our leverage with supply sources, and we have been able to reduce cycle times through improvements with our partners throughout the supply chain.

Our physical distribution system utilizes commercial transport, dedicated fleet and company-owned delivery services. We have implemented a network of regional distribution centers to reduce freight costs and improve service to our dealers and customers.

Raw Materials

We source raw materials and components from a significant number of suppliers around the world. Those raw materials include steel, petroleum-based products, aluminum, other metals, wood, particleboard and other materials and components. To date, we have not experienced any significant difficulties in obtaining these raw materials.

The prices for certain commodities such as steel, petroleum-based products, aluminum, other metals, wood and particleboard have fluctuated in recent years due to changes in global supply and demand. Our global supply chain team continually evaluates current market conditions, the financial viability of our suppliers and available supply options on the basis of quality, reliability of supply and cost.

Research, Design and Development

Our extensive global research—a combination of user observations, feedback sessions and sophisticated analyses—has helped us develop social, spatial and informational insights into work effectiveness. We maintain collaborative relationships with external world-class innovators, including leading universities, think tanks and knowledge leaders, to expand and deepen our understanding of how people work.

Understanding patterns of work enables us to identify and anticipate user needs across the globe. Our design teams explore and develop prototypical solutions to address these needs. These solutions vary from furniture, architecture and technology solutions to single products or enhancements to existing products and across different vertical market applications such as professional services, healthcare and higher education. Organizationally, global design leadership directs strategy and project work, which is distributed to design studios around the world and sometimes involves external design services.

Our marketing team evaluates product concepts using several criteria, including financial return metrics, and chooses which products will be developed and launched. Designers then work closely with engineers and suppliers to co-develop products and processes that incorporate innovative user features with efficient manufacturing practices. Products are tested for performance, quality and compliance with applicable standards and regulations.

We invested $35.8, $33.0 and $35.4 in research, design and development activities in 2017, 2016 and 2015, respectively. We continue to invest more than one percent of our revenue in research, design and development each year. In addition, we sometimes pay royalties to external designers of our products as the products are sold, and these costs are not included in research and development expenses.

Intellectual Property

We generate and hold a significant number of patents in a number of countries in connection with the operation of our business. We also hold a number of trademarks that are very important to our identity and recognition in the marketplace. We do not believe that any material part of our business is dependent on the continued availability of any one or all of our patents or trademarks or that our business would be materially adversely affected by the loss of any of such, except the “Steelcase,” “Coalesse,” “Designtex,” “PolyVision” and “Turnstone” trademarks.

We occasionally enter into license agreements under which we pay a royalty to third parties for the use of patented products, designs or process technology. We have established a global network of intellectual property licenses with our subsidiaries.

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Employees
As of February 24, 2017, we had approximately 11,700 employees, of which approximately 7,200 work in manufacturing. Additionally, we had approximately 1,900 temporary workers who primarily work in manufacturing. Approximately 100 employees in the U.S. are covered by collective bargaining agreements. Outside of the U.S., approximately 2,900 employees are represented by workers' councils that operate to promote the interests of workers. Management promotes positive relations with employees based on empowerment and teamwork.

Environmental Matters
We are subject to a variety of federal, state, local and foreign laws and regulations relating to the discharge of materials into the environment, or otherwise relating to the protection of the environment (“Environmental Laws”). We believe our operations are in substantial compliance with all Environmental Laws. We do not believe existing Environmental Laws have had or will have any material effects upon our capital expenditures, earnings or competitive position.

Under certain Environmental Laws, we could be held liable, without regard to fault, for the costs of remediation associated with our existing or historical operations. We could also be held responsible for third-party property and personal injury claims or for violations of Environmental Laws relating to contamination. We are a party to, or otherwise involved in, proceedings relating to several contaminated properties being investigated and remediated under Environmental Laws, including as a potentially responsible party in several Superfund site cleanups. Based on our information regarding the nature and volume of wastes allegedly disposed of or released at these properties, the total estimated cleanup costs and other financially viable potentially responsible parties, we do not believe the costs to us associated with these properties will be material, either individually or in the aggregate. We have established reserves that we believe are adequate to cover our anticipated remediation costs. However, certain events could cause our actual costs to vary from the established reserves. These events include, but are not limited to: a change in governmental regulations or cleanup standards or requirements; undiscovered information regarding the nature and volume of wastes allegedly disposed of or released at these properties; and other factors increasing the cost of remediation or the loss of other potentially responsible parties that are financially capable of contributing toward cleanup costs.

Available Information
We file annual reports, quarterly reports, proxy statements and other documents with the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934 (the “Exchange Act”). The public may read and copy any materials we file with the SEC at the SEC’s Office of FOIA Services at 100 F Street, NE, Washington, D.C. 20549-2736. The public may obtain information on the operation of the Office of FOIA Services by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers, including Steelcase, that file electronically with the SEC.

We also make available free of charge through our internet website, www.steelcase.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports, as soon as reasonably practicable after we electronically file such reports with or furnish them to the SEC. In addition, our Corporate Governance Principles, Code of Ethics, Code of Business Conduct and the charters for the Audit, Compensation and Nominating and Corporate Governance Committees are available free of charge through our website or by writing to Steelcase Inc., Investor Relations, GH-3E-12, PO Box 1967, Grand Rapids, Michigan 49501-1967.

We are not including the information contained on our website as a part of, or incorporating it by reference into, this Report.

Item 1A. Risk Factors:
The following risk factors and other information included in this Report should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we do not know about currently, or that we currently believe are less significant, may also adversely affect our business, operating results, cash flows and financial condition. If any of these risks actually occur, our business, operating results, cash flows and financial condition could be materially adversely affected.

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Our industry is influenced significantly by cyclical macroeconomic factors that are difficult to predict.
Our revenue is generated predominantly from the office furniture industry, and demand for office furniture is influenced heavily by a variety of factors, including macroeconomic factors such as corporate profits, non-residential fixed investment, white-collar employment and commercial office construction and vacancy rates. According to the U.S.-based Business and Institutional Furniture Manufacturers Association and European-based Centre for Industrial Studies, the U.S. and European office furniture industries have gone through two major downturns in recent history. Consumption declined by more than 30% and 20% from calendar year 2000 to 2003, and again by over 30% and 23% from 2007 to 2009, in the U.S. and Europe, respectively. While the U.S. office furniture industry has generally recovered, the European industry has not improved significantly following the most recent downturn. During these downturns, our revenue declined in similar proportion and our profitability was significantly reduced. Although we have made a number of changes to adapt our business model to these cycles, our profitability could be impacted in the future by cyclical downturns. In addition, the pace of industry recovery, by geography or vertical market, may vary after a cyclical downturn. These macroeconomic factors are difficult to predict, and if we are unsuccessful in adapting our business as economic cyclical changes occur, our results may be adversely affected.
Failure to respond to changes in workplace trends and the competitive landscape may adversely affect our revenue and profits.
Advances in technology, the globalization of business, changing workforce demographics and shifts in work styles and behaviors are changing the world of work and may have a significant impact on the types of workplace products and services purchased by our customers, the level of revenue associated with our offerings and the geographic location of the demand. For example, in recent years, these trends have resulted in a reduction in the amount of office floor space allocated per employee, a reduction in the number, size and price of typical workstations, an increase in work occurring in more collaborative settings and in a variety of locations beyond the traditional office, an increase in residential and lounge-type settings, and broader price offering levels. The confluence of these factors has attracted new competitors from outside the traditional office furniture industry, such as real estate management service firms, technology-based firms, general construction contractors and retail and online residential furniture providers, offering products and services which compete with those offered by us and our dealers.
In addition, the traditional office furniture industry is highly competitive, with a number of competitors offering similar categories of products. We compete on a variety of factors, including: brand recognition and reputation; insight from our research; product design and features; price, lead time, delivery and service; product quality; strength of dealers and other distributors and relationships with customers and key influencers, such as architects, designers and facility managers. If we are unsuccessful in developing and offering solutions which respond to changes in workplace trends and generate revenue to offset the impact of reduced numbers, size and price of typical workstations, or we or our dealers are unsuccessful in competing with existing competitors and new competitive offerings which could arise from outside our industry, our revenue and profits may be adversely affected.
We may not be able to successfully develop, implement and manage our diversification and growth strategies.
Our longer-term success depends on our ability to successfully develop, implement and manage strategies that will preserve our position as the world’s largest office furniture manufacturer, as well as expand our offerings into adjacent and emerging markets. In particular, our diversification and growth strategies include:

- translating our research regarding the world of work into innovative solutions which address market and user needs,
- growing our market share with existing customers and new customers,
- continuing our expansion into adjacent markets such as healthcare clinical spaces, classrooms, libraries and other educational settings and smaller companies,
- expanding our product categories to include additional architecture and technology product offerings,
- growing our market share in markets such as China, India and central, eastern, and southern Europe, the Middle East and Africa,
- investing in acquisitions and new business ventures and
- developing new alliances and additional channels of distribution.

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If these strategies to diversify and increase our revenues are not sufficient, or if we do not execute these strategies successfully, our profitability may be adversely affected.

We have been and expect to continue making investments in strategic growth initiatives and new product development. If our return on these investments is lower, or develops more slowly, than we anticipate, our profitability may be adversely affected.

We may be adversely affected by changes in raw material and commodity costs.

We procure raw materials (including steel, petroleum-based products, aluminum, other metals, wood and particleboard) from a significant number of sources globally. These raw materials are not rare or unique to our industry. The costs of these commodities, as well as fuel and energy costs, can fluctuate due to changes in global supply and demand, larger currency movements and changes in import tariffs and trade barriers, which can also cause supply interruptions. In the short-term, significant increases in raw material and commodity costs can be very difficult to offset with price increases because of existing contractual commitments with our customers, and it is difficult to find effective financial instruments to hedge against such changes. As a result, our gross margins can be adversely affected in the short-term by significant increases in these costs. If we are not successful in passing along higher raw material and commodity costs to our customers over the longer-term because of competitive pressures, our profitability could be negatively impacted.

Our global presence subjects us to risks that may negatively affect our profitability and financial condition.

We have manufacturing facilities, sales locations and offices in many countries, and as a result, we are subject to risks associated with doing business globally. Our success depends on our ability to manage the complexity associated with designing, developing, manufacturing and selling our solutions in a variety of countries. Our global presence is also subject to market risks, which in turn could have an adverse effect on our business, operating results or financial condition, including:

- differing business practices, cultural factors and regulatory requirements,
- political, social and economic instability, natural disasters, security concerns, including terrorist activity, armed conflict and civil or military unrest, and global health issues, and
- intellectual property protection challenges.

Our global footprint makes us vulnerable to currency exchange rate fluctuations and currency controls.

We primarily sell our products in U.S. dollars and euros, but we generate some of our revenues and pay some of our expenses in other currencies. Our results are affected by the strength of the currencies in countries where we manufacture or purchase goods relative to the strength of the currencies in countries where our products are sold. We use foreign currency derivatives to hedge some of the short-term volatility of these exposures. There can be no assurance that such hedging will be economically effective. If we are not successful in managing currency exchange rate fluctuations, it could have an adverse effect on our business, operating results or financial condition.

Although we operate globally in multiple currencies, we report our results in U.S. dollars, and thus our reported results may be positively or negatively impacted by the strengthening or weakening of the other currencies in which we operate against the U.S. dollar.

In addition, we face restrictions in certain countries that limit or prevent the transfer of funds to other countries or the exchange of the local currency to other currencies, which could have a negative impact on our profitability. We also face risks associated with fluctuations in currency exchange rates that may lead to a decline in the value of the funds held in certain jurisdictions, as well as the value of intercompany balances denominated in foreign currencies.

Changes in tariffs, global trade agreements or government procurement could adversely affect our business.

More than 40% of the goods we sell to customers in the U.S., including U.S. government agencies, are manufactured outside of the U.S., predominantly by our subsidiaries in Mexico. Our Mexican manufacturing subsidiaries operate as maquiladoras, importing the majority of their raw materials and component parts from the U.S. We also operate shared services centers in several foreign locations that support our business globally,

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including our U.S. locations. The implementation of any new tariffs or a border adjustment tax, the repeal of the North American Free Trade Agreement or other global trade agreements, or changes in U.S. government procurement rules requiring goods to be produced in the U.S. could have an adverse impact on our business, operating results or financial condition.

We are increasingly reliant on a global network of suppliers.

Our migration to a less vertically integrated manufacturing model has increased our dependency on a global network of suppliers. We are reliant on the timely flow of raw materials, components and finished goods from third-party suppliers. The flow of such materials, components and goods may be affected by:

- fluctuations in the pricing, availability and quality of raw materials,
- the financial solvency of our suppliers and their supply chains,
- changes in international trade agreements or tariffs,
- disruptions caused by labor activities and
- damage and loss of production from accidents, natural disasters and other causes.

Any disruptions or fluctuations in the pricing, supply and delivery of raw materials, component parts and finished goods or deficiencies in our ability to manage our global network of suppliers could have an adverse impact on our business, operating results or financial condition.

The elimination of redundant capabilities among our regional manufacturing facilities could adversely affect our business.

Over the past two decades, we made significant changes to our manufacturing model as a result of the implementation of lean manufacturing principles, and we decreased our total manufacturing footprint globally by approximately 65%. These changes also eliminated redundant capabilities, and many of our products are currently produced in only one location in each of the three geographic regions in which we operate (the Americas, EMEA and Asia Pacific). In addition, our manufacturing model is predominately make-to-order. As a result, any issue which impacts the production capabilities of one of our manufacturing locations, such as natural disasters, disruptions in the supply of materials or components, equipment failures or disruptions caused by labor activities, could have an adverse impact on our business, operating results or financial condition.

We rely largely on a network of independent dealers to market, deliver and install our products, and disruptions and increasing consolidations within our dealer network could adversely affect our business.

From time to time, we or a dealer may choose to terminate our relationship, or the dealer could face financial insolvency or difficulty in transitioning to new ownership. Our business is influenced by our ability to initiate and manage new and existing relationships with independent dealers, and establishing new dealers in a market can take considerable time and resources. Disruption of dealer coverage within a specific local market could have an adverse impact on our business within the affected market. The loss or termination of a significant number of dealers or the inability to establish new dealers could cause difficulties in marketing and distributing our products and have an adverse effect on our business, operating results or financial condition. In the event that a dealer in a strategic market experiences financial difficulty, we may choose to make financial investments in the dealership, which would reduce the risk of disruption but increase our financial exposure. Alternatively, we may elect to purchase and operate dealers in certain markets which also would require use of our capital and increase our financial exposure.

Our diversification and growth strategies into adjacent markets, such as healthcare and education, and the increasing complexity of our technology and architectural products are driving the need for our dealers to develop additional capabilities and invest in additional resources to support such products and markets. Some of our smaller dealers do not have the scale to leverage such investments, and as a result, we have seen and may continue to see increased consolidation within our dealer network. This increased concentration and size of dealers could increase our exposure to the risks discussed above.

We may be adversely impacted by product defects.

Product defects can occur within our own product development and manufacturing processes or through our increasing reliance on third parties for product development, manufacturing and testing activities. We incur various expenses related to product defects, including product warranty costs, product recall and retrofit costs and product

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liability costs, which can have an adverse impact on our results of operations. In addition, the reputation of our brands may be diminished by product defects and recalls.

We maintain a reserve for our product warranty costs based on certain estimates and our knowledge of current events and actions, but our actual warranty costs may exceed our reserve, resulting in a need to increase our accruals for warranty charges. We purchase insurance coverage to reduce our exposure to significant levels of product liability claims and maintain a reserve for our self-insured losses based upon estimates of the aggregate liability using claims experience and actuarial assumptions. Incorrect estimates or any significant increase in the rate of our product defect expenses could have a material adverse effect on our results of operations.

We may be required to record impairment charges related to goodwill and indefinite-lived intangible assets which would adversely affect our results of operations.

We have net goodwill of $106.7 as of February 24, 2017. Goodwill and other acquired intangible assets with indefinite lives are not amortized but are evaluated for impairment annually and whenever an event occurs or circumstances change such that it is more likely than not that an impairment may exist. Poor performance in portions of our business where we have goodwill or intangible assets, or declines in the market value of our equity, may result in impairment charges, which would adversely affect our results of operations.

Changes in corporate tax laws could adversely effect our business.

We are subject to income taxes in the U.S. and various foreign jurisdictions, and more than 55% of our income tax expense in 2017 related to the U.S. federal corporate income tax. As of February 24, 2017, we had deferred tax assets of $99.5 based on the current U.S. corporate income tax rate of 35%. Corporate tax reform and tax law changes are being considered in many jurisdictions, including the U.S. Such tax law changes, if enacted, could have a material adverse effect on our business, operating results or financial position. Specifically, a reduction in applicable tax rates may require us to revalue and write-down our deferred tax assets.

There may be significant limitations to our utilization of net operating loss carryforwards to offset future taxable income.

We have deferred tax assets related to net operating loss carryforwards (“NOLs”) residing primarily in various non-U.S. jurisdictions totaling $57.0, against which valuation allowances totaling $7.9 have been recorded. We may be unable to generate sufficient taxable income from future operations in the jurisdictions in which we maintain deferred tax assets related to NOLs, or implement tax, business or other planning strategies, to fully utilize the recorded value of our NOLs. We have NOLs in various currencies that are also subject to foreign exchange risk, which could reduce the amount we may ultimately realize. Additionally, future changes in tax laws or interpretations of such tax laws may limit our ability to fully utilize our NOLs.

Costs related to our participation in a multi-employer pension plan could increase.

Our subsidiary SC Transport Inc. contributes to the Central States, Southeast and Southwest Areas Pension Fund, a multi-employer pension plan, based on obligations arising under a collective bargaining agreement with our SC Transport Inc. employees. The plan is not administered by or in any way controlled by us. We have relatively little control over the level of contributions we are required to make to the plan, and it is substantially underfunded. As a result, contributions are scheduled to increase, and we expect that contributions to the plan may be subject to further increases. The amount of any increase or decrease in our required contributions to the multi-employer pension plan will depend upon the outcome of collective bargaining, actions taken by trustees who manage the plan, governmental regulations, the actual return on assets held in the plan, the continued viability and contributions of other employers which contribute to the plan, and the potential payment of a withdrawal liability, among other factors.

Under current law, an employer that withdraws or partially withdraws from a multi-employer pension plan may incur a withdrawal liability to the plan, which represents the portion of the plan’s underfunding that is allocable to the withdrawing employer under very complex actuarial and allocation rules. We could incur a withdrawal liability if we substantially reduce the number of SC Transport Inc. employees. There were a total of 16 SC Transport Inc. employees as of February 24, 2017. The most recent estimate of our potential withdrawal liability is $27.1 as of February 24, 2017.

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Item 1B. Unresolved Staff Comments:
None.

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Item 2. Properties:

We have operations at locations throughout the U.S. and around the world. None of our owned properties are mortgaged or are held subject to any significant encumbrance. We believe our facilities are in good operating condition and, at present, are sufficient to meet volume needs currently and for the foreseeable future. Our global headquarters is located in Grand Rapids, Michigan, U.S.A. Our owned and leased principal manufacturing and distribution center locations with greater than 100,000 square feet are as follows:

Segment/Category Primarily Supported	Number of Principal Locations	Owned	Leased
Americas	12	5	7
EMEA	5	4	1
Other	4	2	2
Total	21	11	10

In 2017, we added one leased distribution facility in EMEA and exited one leased manufacturing facility in the Americas.

Item 3. Legal Proceedings:

We are involved in litigation from time to time in the ordinary course of our business. Based on known information, we do not believe we are a party to any lawsuit or proceeding that is likely to have a material adverse effect on the Company.

Item 4. Mine Safety Disclosures:

Not applicable.

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Supplementary Item. Executive Officers of the Registrant:

Our executive officers are:

Name	Age	Position
Guillaume M. Alvarez	57	Senior Vice President, EMEA
Sara E. Armbruster	46	Vice President, Strategy, Research and New Business Innovation
Ulrich H. E. Gwinner	53	President, Asia Pacific
James P. Keane	57	President and Chief Executive Officer, Director
Robert G. Krestakos	55	Vice President, Global Operations
Terrence J. Lenhardt	57	Vice President, Chief Information Officer
James N. Ludwig	53	Vice President, Global Design and Product Engineering
Mark T. Mossing	59	Corporate Controller and Chief Accounting Officer
Gale Moutrey	58	Vice President, Communications
Lizbeth S. O'Shaughnessy	55	Senior Vice President, Chief Administrative Officer, General Counsel and Secretary
Eddy F. Schmitt	45	Senior Vice President, Americas
Allan W. Smith, Jr.	49	Vice President, Global Marketing
David C. Sylvester	52	Senior Vice President, Chief Financial Officer

Guillaume M. Alvarez has been Senior Vice President, EMEA since March 2014. Mr. Alvarez was Senior Vice President, Sales, EMEA from October 2011 to March 2014 and has been employed by Steelcase since 1984.

Sara E. Armbruster has been Vice President, Strategy, Research and New Business Innovation since January 2014. Ms. Armbruster was Vice President, WorkSpace Futures and Corporate Strategy from May 2009 to January 2014 and has been employed by Steelcase since 2007.

Ulrich H. E. Gwinner has been President, Asia Pacific since March 2014. Mr. Gwinner was President, Steelcase Asia Pacific from May 2007 to March 2014 and has been employed by Steelcase since 2000.

James P. Keane has been President and Chief Executive Officer since March 2014. Mr. Keane was President and Chief Operating Officer from April 2013 to March 2014, Chief Operating Officer from November 2012 to April 2013 and President, Steelcase Group from October 2006 to November 2012. Mr. Keane has been employed by Steelcase since 1997.

Robert G. Krestakos has been Vice President, Global Operations since February 2015. Mr. Krestakos was Vice President, Chief Information Officer and Operations-Americas from December 2013 to February 2015 and Vice President, Chief Information Officer from June 2007 to December 2013. Mr. Krestakos has been employed by Steelcase since 1992.

Terrence J. Lenhardt has been Vice President, Chief Information Officer since January 2015. Mr. Lenhardt was Vice President, Finance-Americas, EMEA & Asia Pacific from February 2013 to January 2015 and Vice President, Finance-Steelcase Group Americas & EMEA from February 2011 to February 2013. Mr. Lenhardt has been employed by Steelcase since 1994.

James N. Ludwig has been Vice President, Global Design and Product Engineering since March 2014. Mr. Ludwig was Vice President, Global Design from March 2008 to March 2014 and has been employed by Steelcase since 1999.

Mark T. Mossing has been Corporate Controller and Chief Accounting Officer since April 2008 and has been employed by Steelcase since 1993.

Gale Moutrey has been Vice President, Communications since March 2014. Ms. Moutrey was Vice President, Brand Communications from March 2001 to March 2014 and has been employed by Steelcase since 1984.

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Lizbeth S. O'Shaughnessy has been Senior Vice President, Chief Administrative Officer, General Counsel and Secretary since June 2014. Ms. O'Shaughnessy was Senior Vice President, Chief Legal Officer and Secretary from April 2011 to June 2014 and has been employed by Steelcase since 1992.
Eddy F. Schmitt has been Senior Vice President, Americas since March 2014. Mr. Schmitt was Senior Vice President, Sales and Distribution, Americas from February 2011 to March 2014 and has been employed by Steelcase since 2003.
Allan W. Smith, Jr. has been Vice President, Global Marketing since September 2013. Mr. Smith was Vice President, Applications & Product Marketing-Steelcase Brand from January 2011 to September 2013 and has been employed by Steelcase since 1991.
David C. Sylvester has been Senior Vice President, Chief Financial Officer since April 2011 and has been employed by Steelcase since 1995.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities:

Common Stock

Our Class A Common Stock is listed on the New York Stock Exchange under the symbol "SCS". Our Class B Common Stock is not registered under the Exchange Act or publicly traded. See Note 14 to the consolidated financial statements for additional information. As of the close of business on April 10, 2017, we had outstanding 118,001,311 shares of common stock with 6,055 shareholders of record. Of these amounts, 86,903,762 shares are Class A Common Stock with 5,989 shareholders of record and 31,097,549 shares are Class B Common Stock with 66 shareholders of record.

Class A Common Stock Per Share Price Range	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2017				
High	$15.89	$16.36	$16.35	$18.14
Low	$12.47	$13.06	$12.67	$15.35
2016				
High	$20.45	$19.79	$20.30	$20.37
Low	$16.88	$16.06	$17.07	$11.67

Dividends

The declaration of dividends is subject to the discretion of our Board of Directors and to compliance with applicable laws. Dividends in 2017 and 2016 were declared and paid quarterly. The amount and timing of future dividends depends upon our results of operations, financial condition, cash requirements, future business prospects, general business conditions and other factors that our Board of Directors may deem relevant at the time.

Our unsecured revolving syndicated credit facility does not include any restrictions on cash dividend payments or share repurchases. See Note 12 to the consolidated financial statements for additional information.

Total Dividends Paid

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2017	$ 15.2	$ 14.4	$ 14.5	$ 14.4	$58.5
2016	$ 15.1	$ 14.0	$ 14.0	$ 13.9	$57.0

Fourth Quarter Share Repurchases

The following is a summary of share repurchase activity during Q4 2017:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (1)
11/26/2016 - 12/30/2016	—	$ —	—	$ 126.5
12/31/2016 - 01/27/2017	577	$ 17.10	—	$ 126.5
01/28/2017 - 2/24/2017	—	$ —	—	$ 126.5
Total	577	(2)	—	

(1) In January 2016, the Board of Directors approved a share repurchase program permitting the repurchase of up to $150 of shares of our common stock. This program has no specific expiration date. On October 10, 2016, we entered into a stock repurchase agreement with a third party broker under which the broker is authorized to repurchase up to 5 million shares of our common stock on our behalf during the period from October 11, 2016 through March 23, 2017, subject to certain price, market and volume constraints specified

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in the agreement. Shares purchased under the agreement are part of the Company's share repurchase program approved in January 2016.

(2) All of these shares were repurchased to satisfy participants’ tax withholding obligations upon the vesting of restricted stock unit grants, pursuant to the terms of our Incentive Compensation Plan.

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Item 6. Selected Financial Data:

Financial Highlights	Year Ended February 24, 2017	February 26, 2016	February 27, 2015	February 28, 2014	February 22, 2013
Operating Results:					
Revenue	$3,032.4	$ 3,060.0	$ 3,059.7	$ 2,988.9	$ 2,868.7
Gross profit	1,010.4	971.2	916.0	945.2	866.0
Operating income	200.2	174.6	144.9	165.9	59.3
Income before income tax expense	196.3	174.8	137.0	147.2	54.9
Net income	124.6	170.3	86.1	87.7	38.8
Supplemental Operating Data:					
Restructuring costs	$(5.1)	$ (19.9)	$ (40.6)	$ (6.6)	$ (34.7)
Goodwill and intangible asset impairment charges	—	—	—	(12.9)	(59.9)
Capital expenditures	(61.1)	(93.4)	(97.5)	(86.8)	(74.0)
Share Data:					
Basic earnings per common share	$1.03	$ 1.37	$ 0.69	$ 0.70	$ 0.30
Diluted earnings per common share	$1.03	$ 1.36	$ 0.68	$ 0.69	$ 0.30
Weighted average shares outstanding - basic	120.7	124.3	124.4	126.0	127.4
Weighted average shares outstanding - diluted	121.2	125.3	126.0	127.3	129.1
Dividends paid per common share	$0.48	$ 0.45	$ 0.42	$ 0.40	$ 0.36
Balance Sheet Data:					
Cash and cash equivalents	$197.1	$ 181.9	$ 176.5	$ 201.8	$ 150.4
Short-term investments	73.4	84.1	68.3	119.5	100.5
Company-owned life insurance ("COLI")	168.8	160.4	159.5	154.3	225.8
Working capital (1)	295.8	266.4	264.9	295.3	237.1
Total assets	1,792.0	1,808.6	1,719.6	1,724.0	1,686.4
Total debt	297.4	299.1	282.1	289.7	292.2
Total liabilities	1,025.5	1,071.7	1,055.8	1,052.3	1,024.8
Total shareholders' equity	766.5	736.9	663.8	677.1	668.0
Statement of Cash Flow Data:					
Net cash provided by (used in):					
Operating activities	$170.7	$ 186.4	$ 84.2	$ 178.8	$ 187.3
Investing activities	(48.4)	(87.8)	(14.3)	(25.2)	(85.5)
Financing activities	(105.9)	(90.1)	(89.8)	(101.6)	(64.2)

(1) Working capital equals current assets minus current liabilities, as presented in the Consolidated Balance Sheets.

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations:
The following review of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and accompanying notes thereto included elsewhere within this Report.
Non-GAAP Financial Measures
This item contains 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 consolidated statements of income, balance sheets or statements of cash flows of the company. Pursuant to the requirements of Regulation G, we have provided a reconciliation below of non-GAAP financial measures to the most directly comparable GAAP financial measure.
The non-GAAP financial measures used are: (1) organic revenue growth (decline), which represents the change in revenue over the prior year excluding estimated currency translation effects and the impacts of acquisitions and divestitures, and (2) adjusted operating income (loss), which represents operating income (loss) excluding restructuring costs (benefits). 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.
Financial Summary
Results of Operations
Our reportable segments consist of the Americas segment, the EMEA segment and the Other category. Unallocated corporate expenses are reported as Corporate.

Statement of Operations Data—Consolidated	Year Ended February 24, 2017		February 26, 2016		February 27, 2015	
Revenue	$3,032.4	100.0 %	$3,060.0	100.0 %	$3,059.7	100.0 %
Cost of sales	2,017.8	66.5	2,075.5	67.8	2,106.2	68.8
Restructuring costs	4.2	0.2	13.3	0.5	37.5	1.2
Gross profit	1,010.4	33.3	971.2	31.7	916.0	30.0
Operating expenses	809.3	26.7	790.0	25.8	768.0	25.1
Restructuring costs	0.9	—	6.6	0.2	3.1	0.1
Operating income	200.2	6.6	174.6	5.7	144.9	4.8
Interest expense	(17.2)	(0.5)	(17.6)	(0.6)	(17.7)	(0.6)
Investment income	1.4	—	1.5	0.1	1.4	—
Other income, net	11.9	0.4	16.3	0.5	8.4	0.3
Income before income tax expense	196.3	6.5	174.8	5.7	137.0	4.5
Income tax expense	71.7	2.4	4.5	0.1	50.9	1.7
Net income	$124.6	4.1 %	$170.3	5.6 %	$86.1	2.8 %
Earnings per share:						
Basic	$1.03		$1.37		$0.69	
Diluted	$1.03		$1.36		$0.68	

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Organic Revenue Growth (Decline)—Consolidated	Year Ended February 24, 2017	February 26, 2016
Prior year revenue	$3,060.0	$3,059.7
Divestitures	—	(3.2)
Currency translation effects *	(12.5)	(110.1)
Prior year revenue, adjusted	3,047.5	2,946.4
Current year revenue	3,032.4	3,060.0
Acquisition	(6.8)	(22.6)
Current year revenue, adjusted	3,025.6	3,037.4
Organic growth (decline) $	$(21.9)	$91.0
Organic growth (decline) %	(1)%	3 %

* Currency translation effects represent the net effect of translating prior year foreign currency revenues using the average exchange rate on a monthly basis during the current year.

Reconciliation of Operating Income to Adjusted Operating Income	Year Ended February 24, 2017		February 26, 2016		February 27, 2015	
Operating income	$200.2	6.6%	$174.6	5.7%	$144.9	4.8%
Add: restructuring costs	5.1	0.2	19.9	0.7	40.6	1.3
Adjusted operating income	$205.3	6.8%	$194.5	6.4%	$185.5	6.1%

Overview

In 2017, revenue declined slightly compared to the prior year; the Americas and EMEA each experienced a modest revenue decline and the Other category achieved revenue growth of 5%, driven largely by Asia Pacific. The revenue decline reflected an ongoing shift in demand in the Americas from products for traditional private offices and cubicle spaces towards more open-plan and collaborative solutions as well as continued reduction in demand within the energy sector. This decline was partially offset by revenue generated by a number of products launched over the past 18 months to address the emerging trends and other strategic initiatives. We believe that these actions have built momentum across all segments of our business including the strengthening of our internal estimates of project orders in the Americas expected to ship over the next four quarters compared to the prior year.

Despite the decline in revenue, we recorded an operating income margin of 6.6% in 2017 which represented our highest operating income margin in over 15 years. Our restructuring actions in EMEA were completed, and we have stabilized our industrial model through the elimination of disruption costs and inefficiencies associated with operational footprint changes and other manufacturing and distribution issues experienced in the prior year. As a result, cost of sales as a percentage of revenue in EMEA improved by 640 basis points compared to the prior year, which contributed significantly to the 130 basis point improvement of consolidated cost of sales. We have been and expect to continue increasing our operating expenses and capital investments in support of our various growth initiatives.

2017 compared to 2016

We recorded net income of $124.6 and diluted earnings per share of $1.03 in 2017 compared to net income of $170.3 and diluted earnings per share of $1.36 in 2016. Net income in 2016 was positively impacted by the reversal of a valuation allowance recorded against net deferred tax assets in France of $56.0 and the gain from the partial sale of an investment in an unconsolidated affiliate. Operating income in 2017 increased by $25.6 to $200.2 compared to the prior year. The improvement was driven by a reduction of cost of sales as a percent of revenue in EMEA and lower restructuring costs, partially offset by higher operating expenses in the Americas. After adjusting for the impact of restructuring costs, adjusted operating income of $205.3 in 2017, or 6.8% of revenue, represented an increase of $10.8 compared to the prior year.

Revenue of $3,032.4 in 2017 represented a decrease of $27.6, or less than 1%, compared to the prior year. The decrease in revenue was driven by lower revenue in the Americas and EMEA, partially offset by revenue growth in the Other category. After adjusting for a $6.8 favorable impact of an acquisition in the Americas and $12.5

of unfavorable currency translation effects, the organic revenue decline was $21.9 or less than 1%. On an organic basis, revenue declined by 1% in the Americas and 2% in EMEA, while revenue in the Other category grew by 6%.
Cost of sales decreased by 130 basis points to 66.5% percent of revenue in 2017 compared to 2016. The improvement was primarily due to a 640 basis point improvement in EMEA, driven by the elimination of disruption costs and inefficiencies associated with operational footprint changes and other manufacturing and distribution issues experienced in the prior year, as well as benefits from cost reduction efforts, gross margin improvement initiatives and favorable shifts in business mix. Disruption costs and inefficiencies included labor premiums paid to employees during transition periods and labor inefficiencies caused by work stoppages or slowdowns resulting from restructuring activities. They also included incremental logistics costs caused by split shipments (linked to labor inefficiencies) and interim supply chains during production moves. Lastly, these costs included duplicate labor and overhead at the new Czech Republic facility and other plants impacted by production moves. Cost of sales in the Americas and Other category improved modestly compared to the prior year.

Operating expenses of $809.3 in 2017 represented an increase of 90 basis points as a percent of revenue compared to the prior year. Operating expenses increased by $13.0 in the Americas, $3.4 in EMEA and $3.3 in the Other category. The increase in the Americas was driven by higher sales, product development and marketing costs, partially offset by a reduction in variable compensation expense. The increase in EMEA was primarily driven by costs associated with the new Learning + Innovation Center in Munich, Germany partially offset by favorable currency translation effects. The increase in the Other category was driven by Designtex and Asia Pacific which posted strong revenue growth compared to the prior year.

We recorded net restructuring costs of $5.1 in 2017 compared to net restructuring costs of $19.9 in 2016. The 2017 amount included final costs related to the closure of the manufacturing facility in High Point, North Carolina, the closure of the manufacturing facility in Durlangen, Germany and the establishment of the Munich Learning + Innovation Center. The 2016 amount included costs associated with those three projects as well as the exit of a manufacturing facility in Wisches, France, partially offset by a $2.8 gain related to the sale of a facility in the Americas. See further discussion in Note 19 to the consolidated financial statements.

Our 2017 effective tax rate was 36.5% compared to a 2016 effective tax rate of 2.6%. The 2017 effective tax rate reflected discrete tax expense associated with a change in the statutory tax rate in France which was partially offset by discrete tax benefits related to the outcome of a tax audit in EMEA. The 2016 rate reflected a discrete tax benefit related to the reversal of a valuation allowance recorded against net deferred tax assets in France of $56.0 which resulted from the implementation of a contract manufacturing model in Q4 2015 between our U.S. parent company and our Steelcase European subsidiaries. As a result of this discrete tax benefit, our 2016 effective tax rate was significantly lower than the U.S. federal statutory tax rate of 35%. See further discussion in Note 15 to the consolidated financial statements.

2016 compared to 2015

We recorded net income of $170.3 and diluted earnings per share of $1.36 in 2016 compared to net income of $86.1 and diluted earnings per share of $0.68 in 2015. Net income in 2016 was positively impacted by the reversal of a valuation allowance recorded against net deferred tax assets in France and a gain from the partial sale of an investment in an unconsolidated affiliate in Q4 2016. These significant items, net of the associated variable compensation expense and income tax expense, had a combined favorable impact on net income of approximately $53 and on diluted earnings per share of approximately $0.42. The comparison of net income from 2016 to 2015 was also positively impacted by restructuring charges which were $20.7 lower in 2016 compared to 2015. Our 2016 results reflected strong operating performance in the Americas and improved operating performance in Asia Pacific, partially offset by higher costs in EMEA associated with manufacturing footprint changes and other operational challenges.

Revenue for 2016 of $3,060.0 represented a slight increase compared to the prior year. Growth in the Americas of 3% was offset by a decline of 13% in EMEA. The growth in the Americas was driven by increased volume, and approximately one-third of the growth rate was attributable to improved pricing. The revenue comparison in EMEA reflected $79.2 of unfavorable currency translation effects. Organic revenue growth for 2016 was $91.0 or 3%, with growth of 3% in the Americas segment, 1% in the EMEA segment and 4% in the Other category.

Operating income in 2016 of $174.6 or 5.7% of revenue compared to $144.9 or 4.8% in the prior year. The increase was driven by a $20.7 reduction in restructuring costs, strong operating performance in the Americas and improved operating performance in Asia Pacific, partially offset by an increase in cost of sales as a percent of

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revenue in EMEA and $13.7 of variable compensation expense associated with the large favorable tax item and non-operating gain recorded in Q4 2016. Adjusted operating income in 2016 increased by $9.0 or 4.9% to $194.5 compared to the prior year. The 2016 adjusted operating income margin of 6.4% represented a 30 basis point improvement compared to the prior year and reflected an impact of approximately 50 basis points from variable compensation expense associated with the two large items recorded in Q4 2016.

Cost of sales in 2016 was 67.8% as a percent of revenue, a 100 basis point decrease compared to 2015. The improvement was primarily driven by a 120 basis point improvement in the Americas, due to lower material, freight and distribution costs and improvements in negotiated customer pricing, partially offset by a 190 basis point decline in EMEA driven by manufacturing and distribution issues associated with the manufacturing footprint changes and an unfavorable shift in business mix. Cost of sales included disruption costs and inefficiencies of approximately $20 and $28 in 2016 and 2015, respectively, in EMEA.

Operating expenses of $790.0 in 2016 increased by $22.0 or 70 basis points as a percent of revenue compared to the prior year. Higher variable compensation expense of $21, additional expenses of $4 related to acquisitions, net of divestitures and other increases in operating expenses, including costs associated with establishing our new Learning + Innovation Center in Munich, were partially offset by approximately $24 of favorable currency translation effects.

We recorded net restructuring costs of $19.9 in 2016 compared to net restructuring costs of $40.6 in 2015. The 2016 amount included costs primarily associated with the closure of the Durlangen facility, and severance provisions related to the relocation of activities to the Learning + Innovation Center in Munich. The 2015 amount was primarily associated with manufacturing footprint changes in EMEA, partially offset by a gain related to the sale of an idle facility in the Americas.

In Q4 2015, we implemented changes in EMEA to align our tax structure with the management of our globally integrated business. Our U.S. parent company became the principal in a contract manufacturing model with our Steelcase European subsidiaries. During 2016, we generated taxable income for our French subsidiaries and allowed for partial utilization of the net operating loss carryforwards in France. In Q4 2016, we recognized a discrete tax benefit of $56.0 related to the reversal of the remaining valuation allowance recorded against our French net deferred tax assets. As a result of this discrete tax benefit, our 2016 effective tax rate of 2.6% was significantly lower than the U.S. federal statutory tax rate of 35%. Our 2015 effective tax rate was 37.2%.

Interest Expense, Investment Income and Other Income, Net

	Year Ended		
Interest Expense, Investment Income and Other Income, Net	February 24, 2017	February 26, 2016	February 27, 2015
Interest expense	$(17.2)	$ (17.6)	$ (17.7)
Investment income	1.4	1.5	1.4
Other income (expense), net:			
Equity in income of unconsolidated affiliates	9.7	13.4	15.2
Foreign exchange gain (loss)	3.4	(4.0)	(5.0)
Miscellaneous, net	(1.2)	6.9	(1.8)
Total other income, net	11.9	16.3	8.4
Total interest expense, investment income and other income, net	$(3.9)	$ 0.2	$ (7.9)

Miscellaneous, net in 2016 included an $8.5 gain related to the partial sale of an unconsolidated affiliate.

Business Segment Disclosure

See Note 18 to the consolidated financial statements for additional information regarding our business segments.

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Americas

The Americas segment serves customers in the U.S., Canada, the Caribbean Islands 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 and Turnstone brands.

Statement of Operations Data—Americas	Year Ended February 24, 2017		February 26, 2016		February 27, 2015	
Revenue	$2,231.9	100.0%	$2,256.0	100.0 %	$2,180.7	100.0 %
Cost of sales	1,453.4	65.1	1,473.6	65.3	1,449.3	66.5
Restructuring costs (benefits)	2.6	0.1	2.4	0.1	(10.0)	(0.5)
Gross profit	775.9	34.8	780.0	34.6	741.4	34.0
Operating expenses	530.7	23.8	517.7	23.0	481.5	22.1