



# Fourth Quarter and Full Year 2013 Results

February 25, 2014

# Safe Harbor Statement

The Private Securities Litigation Reform Act of 1995, as amended, (the “Act”) provides protection from liability in private lawsuits for “forward-looking” statements made by public companies under certain circumstances, provided that the public company discloses with specificity the risk factors that may impact its future results. We want to take advantage of the “safe harbor” provisions of the Act. Certain statements made during this presentation are forward-looking statements under the Act. Except for historical financial and business performance information, statements made during this presentation should be considered forward-looking as referred to in the Act. Much of the information that looks towards future performance of our company is based on various factors and important assumptions about future events that may or may not actually come true. As a result, our operations and financial results in the future could differ materially and substantially from those we have discussed in the forward-looking statements made during this presentation. Certain risks and uncertainties are detailed from time to time in our filings with the United States Securities and Exchange Commission (“SEC”). You are strongly urged to review all such filings for a more detailed discussion of such risks and uncertainties. The Company’s SEC filings are readily obtainable at no charge at [www.sec.gov](http://www.sec.gov) and at the company’s website at [www.officedepot.com](http://www.officedepot.com). During portions of today’s presentation, we may refer to results which are not GAAP numbers. A reconciliation of non-GAAP numbers to GAAP results is available in the investor relations section of our web site at [www.officedepot.com](http://www.officedepot.com).



## Roland Smith

*Chairman and Chief Executive Officer*

# 100-Day Plan



# 100-Day Plan

Dec 10

Headquarters  
Selected

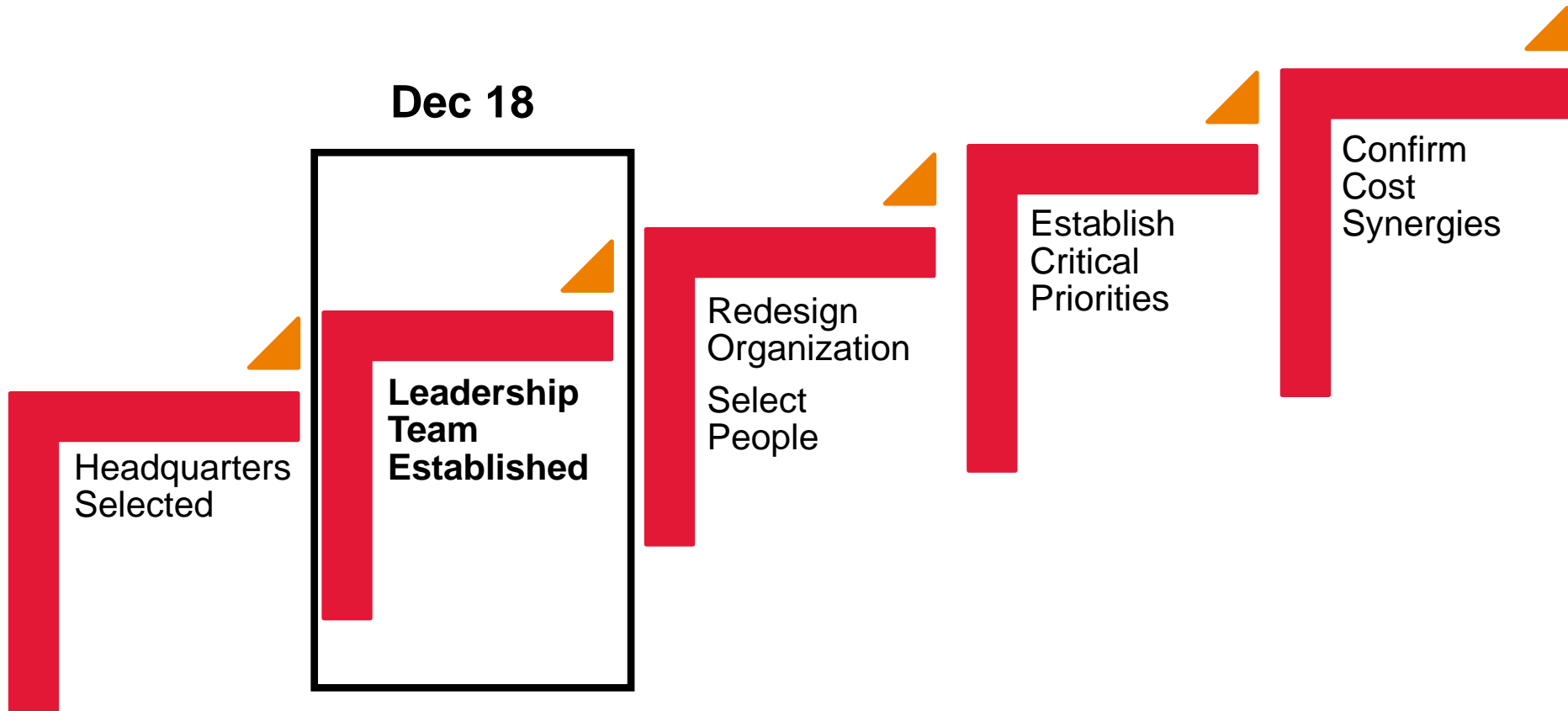
Establish  
Leadership  
Team

Redesign  
Organization  
Select  
People

Establish  
Critical  
Priorities

Confirm  
Cost  
Synergies

# 100-Day Plan



# Office Depot Leadership Team



**Steve Calkins**  
EVP, Contract Sales



**Juan Guerrero**  
EVP, Retail



**Mike Kirschner**  
EVP, eCommerce



**Ron Lalla**  
EVP, Merchandising



**Tim Rea**  
EVP, Marketing



**Todd Hale**  
SVP & Global Chief Information Officer



**Larry Hartley**  
SVP, Supply Chain

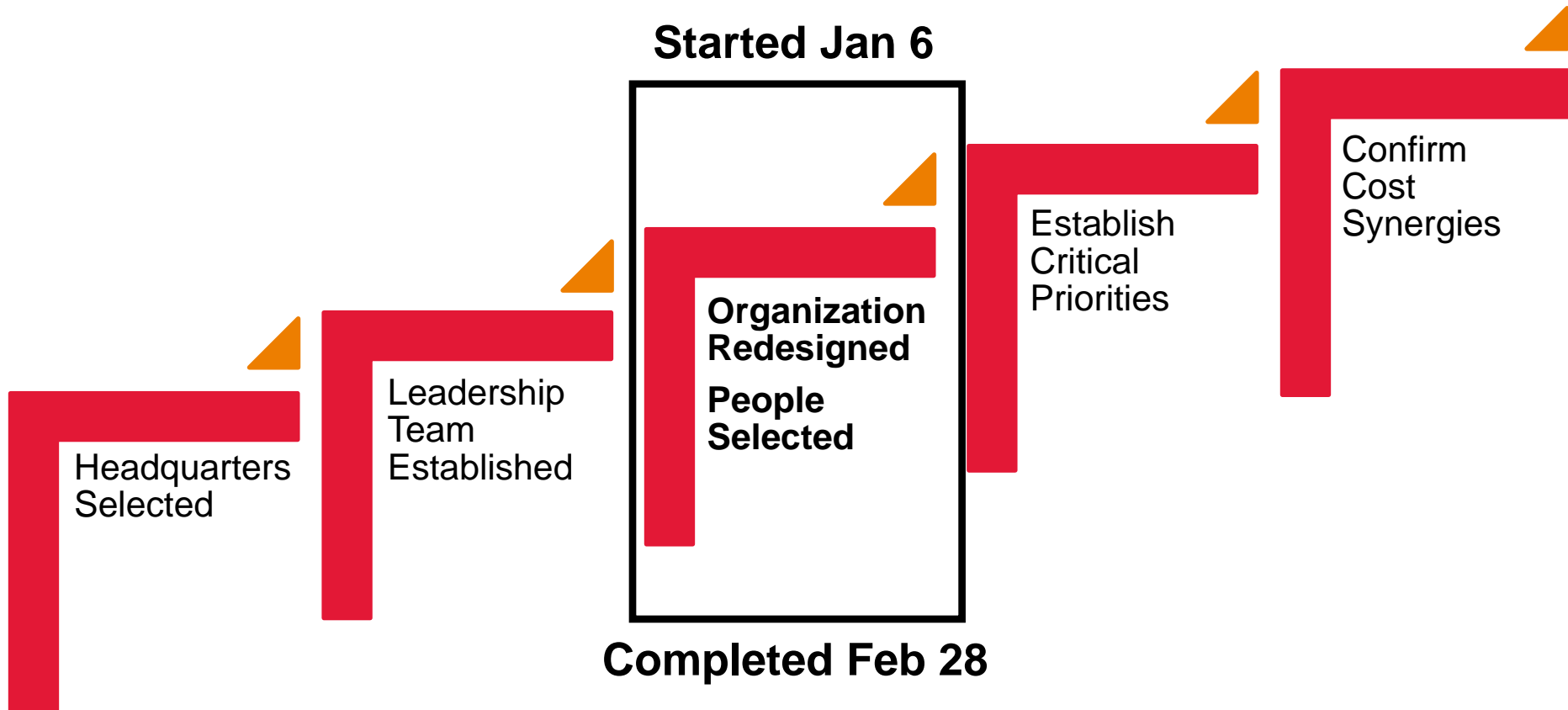


**Rob Koch**  
SVP, Real Estate



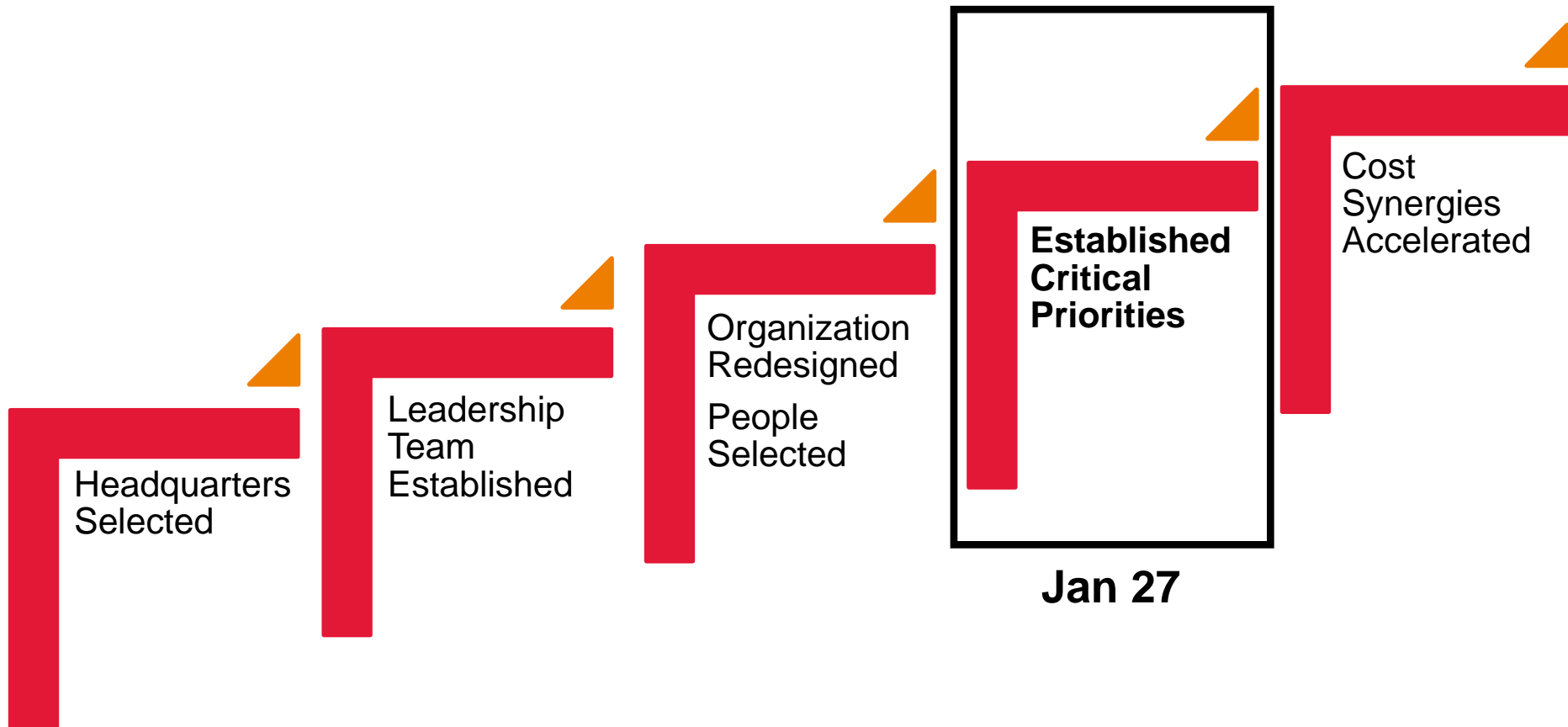
**Deb O'Connor**  
SVP, Integration

# 100-Day Plan





# 100-Day Plan



# 2014 Critical Priorities

2014 Annual Operating Plan

## Productivity & Efficiency

Synergies & Efficiencies

Retail Footprint

IT Platform

Common Assortment

Marketing Platform

Supply Chain Approach

## Strategy & Growth

Improve Profit Margins

Unique Selling Proposition

Vision & Strategy

Lean Organization

Culture & Values

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# Office Depot Core Values

## Integrity

1

We say what we do and do what we say. We always tell the whole truth and deliver on our commitments

## Accountability

2

We take responsibility for our actions and the actions of our teams. We accept responsibility for delivering results

## Innovation

3

We embrace the need for continuous improvement and never get too comfortable with the status quo

## Teamwork

4

We subordinate our personal needs or agendas for the greater benefit of our team

## Respect

5

We treat others the way we want to be treated

# Operating Promise - Guiding Principles

- |                      |           |  |
|----------------------|-----------|--|
| <b>Actions</b>       | <b>1</b>  | <b>Our actions are guided by our core values</b>                           |
| <b>Service</b>       | <b>2</b>  | <b>Deliver high-quality service to our external and internal customers</b> |
| <b>Ownership</b>     | <b>3</b>  | <b>Manage our business with pride and a sense of ownership</b>             |
| <b>Results</b>       | <b>4</b>  | <b>Hold ourselves and each other accountable for all commitments</b>       |
| <b>Simplicity</b>    | <b>5</b>  | <b>Simpler is better</b>   |
| <b>Balance</b>       | <b>6</b>  | <b>Balance short-term needs with long-term opportunities</b>               |
| <b>Decisions</b>     | <b>7</b>  | <b>Make fact-based decisions with a sense of urgency</b>                   |
| <b>Teamwork</b>      | <b>8</b>  | <b>Work collaboratively to succeed</b>                                     |
| <b>Innovation</b>    | <b>9</b>  | <b>Pursue evolutionary improvement and revolutionary ideas for growth</b>  |
| <b>Communication</b> | <b>10</b> | <b>Communicate regularly and honestly</b>                                  |

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# 100-Day Plan



# More Than \$600 Million Total Annual Run-Rate Cost Synergies by Year 3

- Excludes upside from U.S. retail store base rationalization
- Total annual run-rate cost synergies include:
  - ~\$130 million from purchasing synergies (COGS)
  - More than \$470 million from SG&A/distribution/occupancy
- Expect to realize approximately \$170 million in cost synergies during 2014
  - ~\$45 million from purchasing synergies (COGS)
  - ~\$125 million from SG&A/distribution/occupancy
- Run-rate cost synergies of \$340 million by end of 2014
- Approximately \$400 million of integration expenses 2014-2016
  - ~\$300 million in 2014
- Capital expenditures related to integration ~\$200-250 million 2014-2016
  - Up to \$50 million in 2014



## Steve Hare

*Executive Vice President and Chief Financial Officer*

# Financial Summary – Q4 2013

- Q4 2013 sales of \$3.5 billion, up 33% from Q4 2012
  - Q4 2013 includes \$939 million in OfficeMax sales since 11/5/13 merger close
- Gross profit increased by \$180 million and gross margin declined 56 bps
  - Includes OfficeMax stub period
- Reported results include pretax charges of \$123 million for merger-related expenses, asset impairments and other charges, plus \$22 million of expense related to the redemption of preferred stock
- Excluding these items, Q4 2013 adjusted operating income<sup>(1)</sup> was \$5 million and adjusted net loss<sup>(1)</sup> was \$14 million or \$0.03 per share

<sup>1</sup> Non-GAAP number. A reconciliation of GAAP to non-GAAP numbers can be found on the Office Depot website at [investor.officedepot.com](http://investor.officedepot.com)

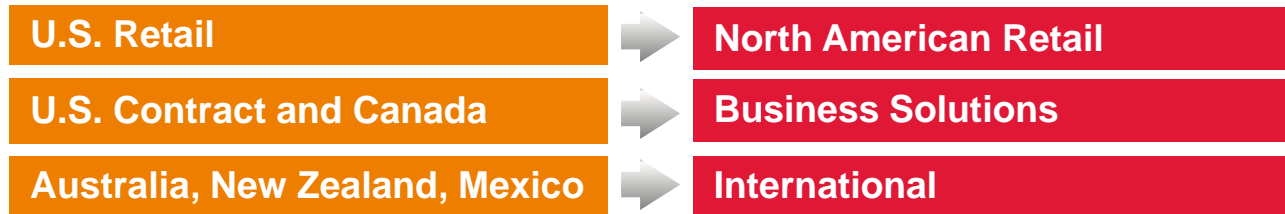
# Financial Summary – FY 2013

- FY 2013 sales of \$11.2 billion, up 5% from FY 2012
  - Includes \$939 million of OfficeMax sales since 11/5/13 merger close
- Reported results include the \$382 million gain from the Office Depot de Mexico JV sale, \$180 million in merger and other expenses, \$70 million in goodwill and asset impairments, \$21 million in International restructuring and other charges, plus \$45 million of expense related to the redemption of preferred stock
- Excluding these items, FY 2013 adjusted operating income<sup>(1)</sup> was \$66 million and adjusted net loss<sup>(1)</sup> was \$36 million or \$0.11 per share

<sup>1</sup> Non-GAAP number. A reconciliation of GAAP to non-GAAP numbers can be found on the Office Depot website at [investor.officedepot.com](http://investor.officedepot.com)

# Changes in Financial Presentation

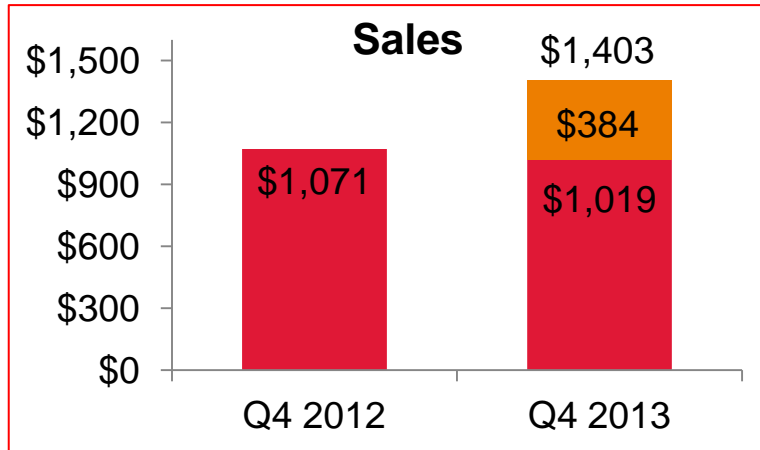
- Aligned OfficeMax Segments with Office Depot Divisions



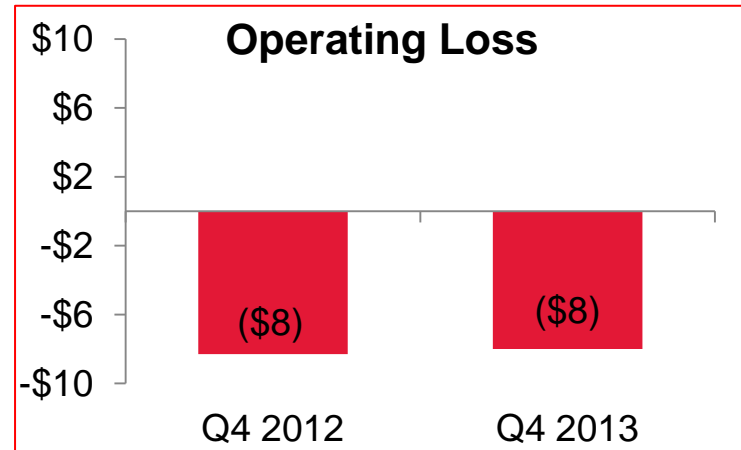
- Modified Divisional Operating Income Measure
- Aligned Office Depot & OfficeMax Category Reporting
- Synchronized Office Depot & OfficeMax Accounting Policies

# North American Retail – Q4 2013

(\$ millions)



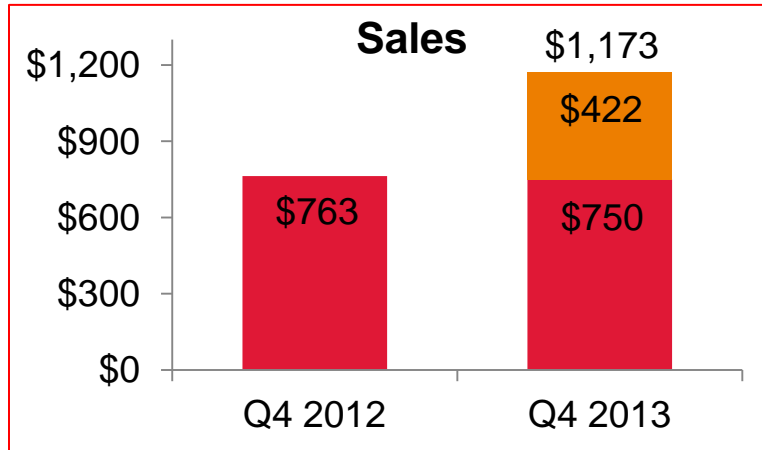
(\$ millions)



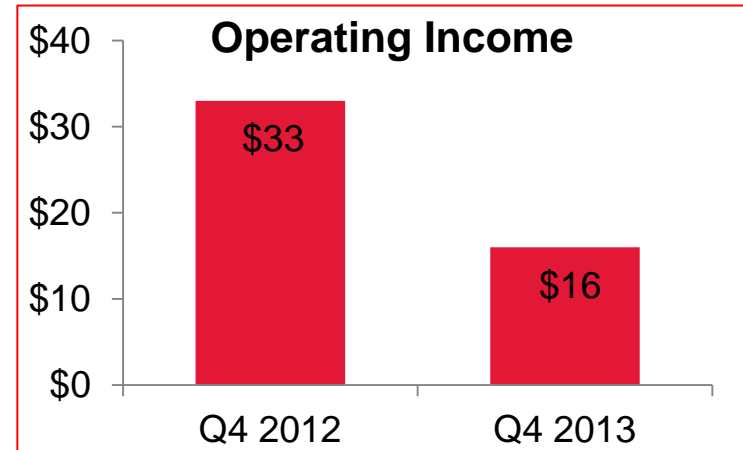
- Q4 2013 sales increased 31% versus prior year; Q4 2013 includes \$384 million in OfficeMax sales since 11/5/13 merger close
- Comparable sales down 4.0% in Q4 2013; lower average order values, and transactions down due to decreased store traffic
  - Sales weakness in tablets, software, and certain peripherals
  - Copy & Print Depot sales up, mobility product sales increased
- Q4 2013 operating loss of \$8 million flat with prior year quarter
  - Flow through impact of lower sales and unfavorable inventory adjustment, offset by lower expenses and the positive impact of OfficeMax stub period

# Business Solutions – Q4 2013

(\$ millions)



(\$ millions)

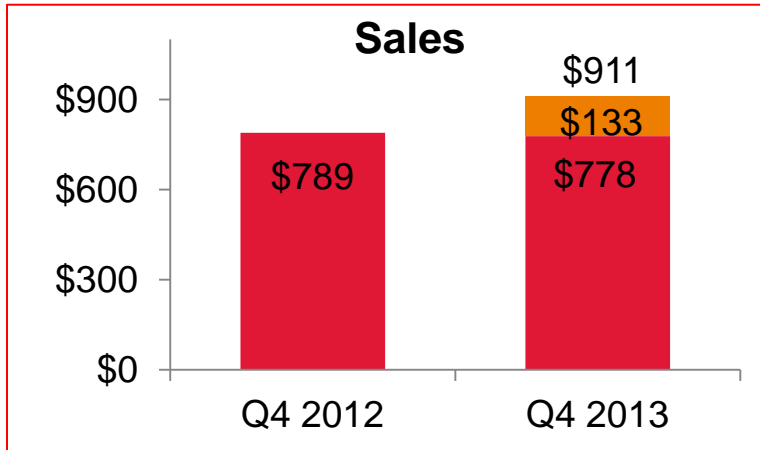


- Q4 2013 sales increased 54% versus prior year; Q4 2013 includes \$422 million in OfficeMax sales since 11/5/13 merger close
- Contract channel sales down low single digits
  - Positive sales in small & medium businesses, education, state and local business; steep declines in federal customer sales; low single digit declines in enterprise
  - Sales increased in Copy & Print, cleaning, break room and school supplies; continued pressure in traditional supplies
- Direct channel sales up low single digits
  - Continued transition from catalog and call center to web sales
  - Sales improvement in technology and furniture
- Q4 2013 operating income of \$16 million compared to \$33 million in prior year period
  - Gross profit down, driven by lower volume and margin rate; increase in SG&A including higher legal expenses
  - Positive impact from the OfficeMax stub period

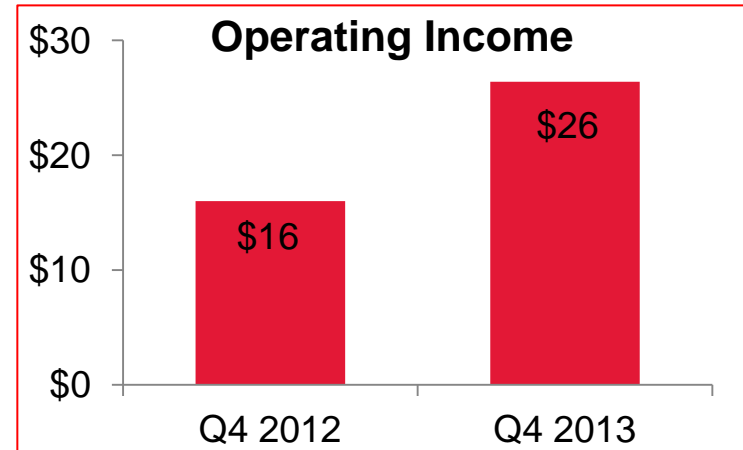


# International – Q4 2013

(\$ millions)



(\$ millions)



- Q4 2013 sales increased 15% in U.S. dollars
  - Q4 2013 includes \$133 million in OfficeMax sales since 11/5/13 merger close
  - Sales down 4.6% in constant currency excluding OfficeMax
- European Contract sales down mid single digits
  - Impacted by unprofitable customer exits and closure of operations in Poland and Hungary
- European Direct sales down mid single digits
  - Rate of decline in catalog slowing while web sales continue to improve
- Retail channel sales down mid single digits, attributable to closure of Hungary operations
- Q4 2013 operating income of \$26 million compared to \$16 million in prior year quarter
  - Gross margin rate improvement largely from pricing actions and product mix, lower SG&A including payroll and advertising; positive impact from the OfficeMax stub period

# Merger Consideration

<b>OfficeMax Common Shares Exchanged</b>	92 million
<b>Exchange Ratio</b>	2.69
<b>Office Depot Common Stock Issued</b>	247 million
<b>Per Share Price On November 15, 2013</b>	\$5.65
<b>Fair Value of Consideration</b>	\$1.4 billion

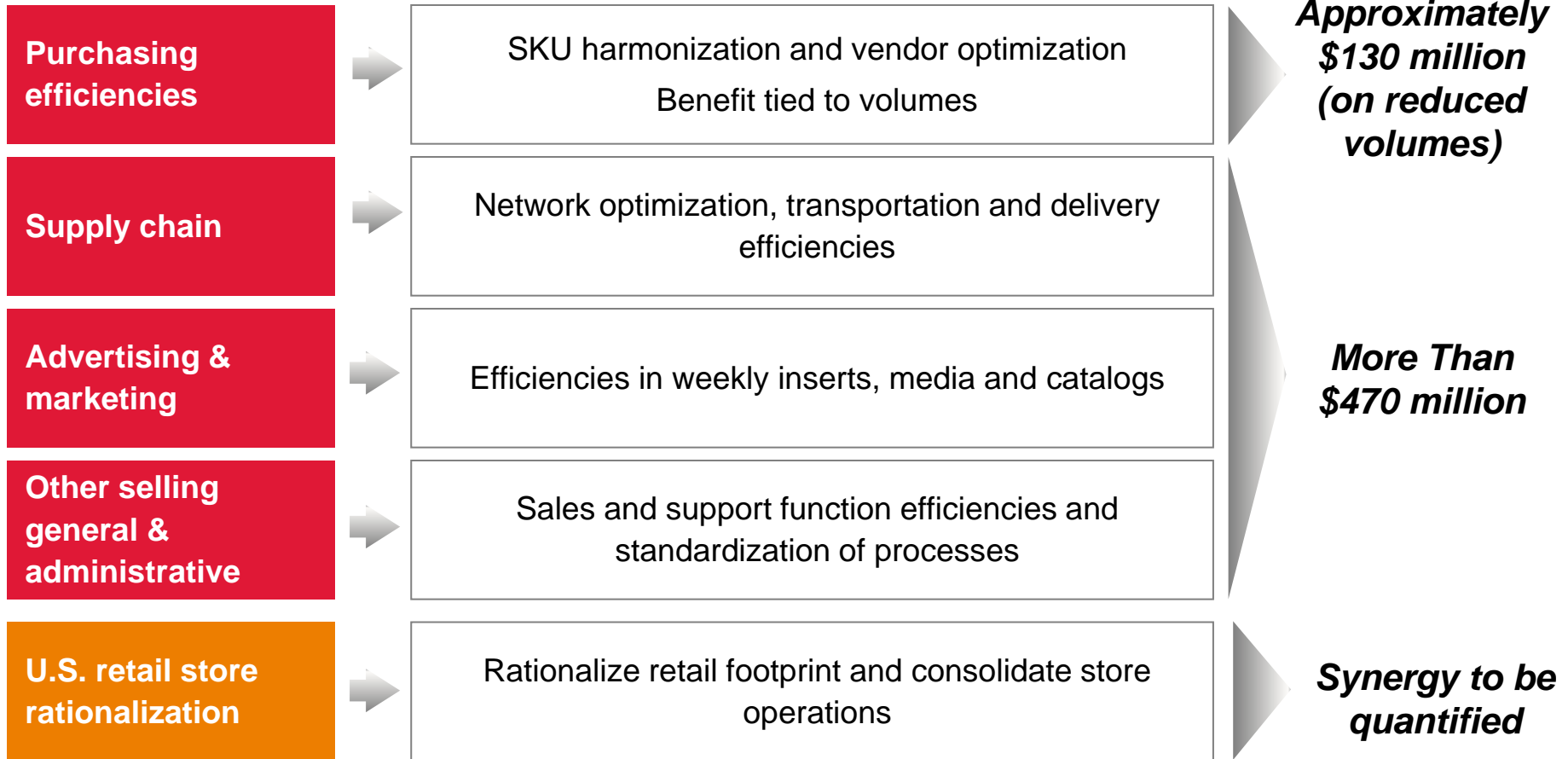
<b>ODP Shares Outstanding as of December 28, 2013</b>	~530 million
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# Balance Sheet/Cash Flow Highlights – FY 2013

<p><b>Net Cash Position</b></p>	<ul style="list-style-type: none"> <li>• Total liquidity of approximately \$2.1 billion at 2013 year end               <ul style="list-style-type: none"> <li>- \$955 million of cash &amp; equivalents</li> <li>- \$1.1 billion available from Asset Backed Lending facility</li> </ul> </li> <li>• Total debt of \$725 million, excluding \$859 million non-recourse debt related to Timber Notes</li> </ul>
<p><b>Capex</b></p>	<ul style="list-style-type: none"> <li>• Capital Expenditures of \$137 million in FY 2013</li> </ul>
<p><b>Sale of Office Depot de Mexico JV</b></p>	<ul style="list-style-type: none"> <li>• Net after-tax proceeds of approximately \$550 million</li> </ul>
<p><b>Merger Costs</b></p>	<ul style="list-style-type: none"> <li>• \$164 million of merger-related cash costs in FY 2013</li> </ul>
<p><b>Preferred Stock</b></p>	<ul style="list-style-type: none"> <li>• Office Depot preferred stock redeemed for approximately \$431 million</li> <li>• OfficeMax preferred stock converted to Office Depot common at merger closing</li> </ul>

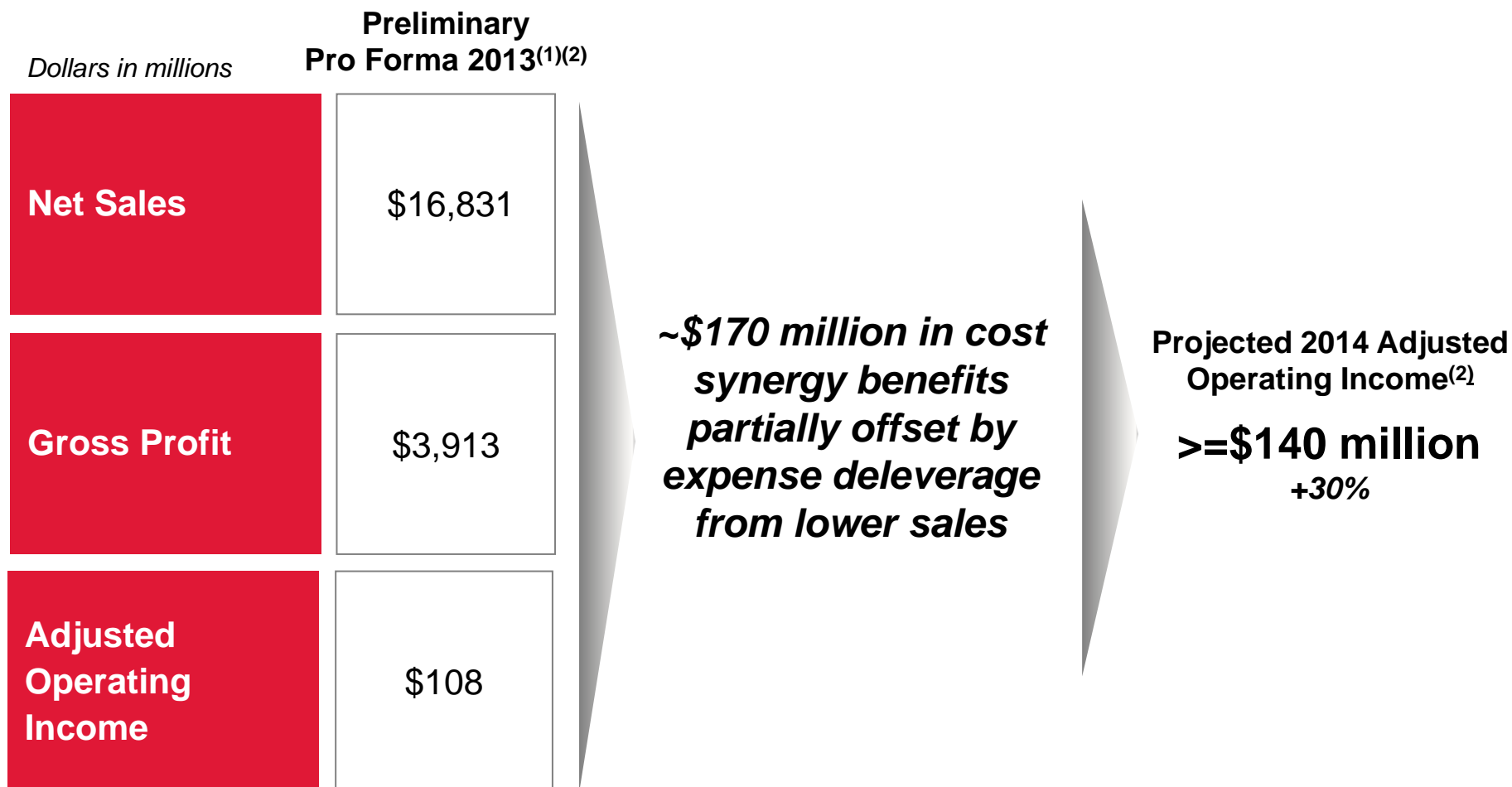
# Significant Merger Cost Synergies

**More than \$600 million in annual run-rate cost synergies by end of year 3**



**Working Capital and Capex Opportunities**

# Adjusted Operating Income Improvement



<sup>1</sup> Assumes merger was completed at end of 2012. Purchase accounting and other pro forma adjustments are described on our web site at [investor.officedepot.com](http://investor.officedepot.com)

<sup>2</sup> Excludes merger integration expenses

# 2014 Outlook

## **Core Business (excluding merger-related costs)**

- Adjusted operating income not less than \$140 million
- Depreciation & amortization approximately \$300 million
- Capital expenditures approximately \$150 million

## **Significant Year 1 Integration Spend to Enable Long-Term Benefits**

- Merger integration expenses of approximately \$300 million, including employee severance
- Up to \$50 million in capital expenditures related to integration

*Expect to use some balance sheet cash in 2014 to fund front-loaded integration spending, to create ongoing benefits in future years*

# Path to Transformation

**Organizational Design  
& Integration**

**Sales & Margin  
Stabilization**

**Long Term  
Growth  
Opportunities**

**More Than \$600 million in Cost Synergies**

# Questions & Answers