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CORPORATE PARTICIPANTS

Gerry P. Smith *Office Depot, Inc. - CEO & Director*

Richard Leland *Office Depot, Inc. - VP of Finance & IR and Treasurer*

Stephen E. Hare *Office Depot, Inc. - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

Adam Harry Sindler *Deutsche Bank AG, Research Division - Research Associate*

Chandni Luthra *Goldman Sachs Group Inc., Research Division - Research Analyst*

Daniel Thomas Binder *Jefferies LLC, Research Division - MD and Senior Equity Research Analyst*

Kate McShane *Citigroup Inc, Research Division - MD, Head of the U.S. Discretionary and U.S. Apparel and Retail Analyst*

Michael Lasser *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

PRESENTATION

Operator

Good morning, and welcome to the Office Depot's Third Quarter 2017 Earnings Conference Call. (Operator Instructions) At the request of Office Depot, today's call is being recorded.

I would like to introduce Richard Leland, Vice President, Investor Relations and Treasurer. Mr. Leland, you may now begin.

Richard Leland - *Office Depot, Inc. - VP of Finance & IR and Treasurer*

Good morning, and thank you for joining us. This is Rich Leland, and I'm here with Gerry Smith, our CEO; and Steve Hare, our Executive Vice President and CFO. On today's call, Gerry will summarize the third quarter results and provide an update on the business. Steve will then review the quarterly financial results and outlook. Following Steve's discussion, we'll have some closing comments and then open up the line for your questions.

Before we begin, I need to inform you that certain comments made on this call include forward-looking statements, which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the company's current expectations concerning future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially. A detailed discussion of these factors and uncertainties is contained in the company's filings with the U.S. Securities and Exchange Commission.

During the call, we'll use some non-GAAP financial measures as we describe business performance. The SEC filings as well as the earnings press release, presentation slides that accompany today's comments and reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures are all available on our website at investor.officedepot.com. Today's call and slide presentation is being simulcast on our website and will be archived there for at least 1 year.

We've also posted a short video on our website that highlights our new strategic direction, and I encourage you to view it at your convenience.

I'll now turn the call over to Office Depot's CEO, Gerry Smith.

Gerry P. Smith - *Office Depot, Inc. - CEO & Director*

Thank you, Rich, and good morning to everyone on the call. Today is a very exciting day for us here at Office Depot. Late yesterday afternoon, we successfully completed the acquisition of CompuCom, just a little over 1 month from when we first announced the deal on October 3. It took a tremendous amount of effort by the team. I want to thank everyone for their hard work to make this happen. Importantly, it also marks a major milestone for the company as we're beginning to transform Office Depot for the future. I'm very excited to share with you the details of our new strategic direction, but first, let's recap the third quarter financial results.

Beginning on Slide 4. Total sales in the quarter were $2.6 billion, a decrease of 8% from the third quarter of 2016. Excluding store closures, adjusted sales were down 6%. Third quarter sales include the negative impact of Hurricane Harvey, Irma and Maria, which disrupted operations in Puerto Rico and the Southeastern United States, where a heavy concentration of our contract and retail customers are located. Although normal operations have resumed to some extent, certain markets such as Puerto Rico will continue to be impacted for several more months.

Operating income in the third quarter was $108 million, with the diluted earnings per share from continuing operations of $0.19 per share. Adjusted operating income was $131 million and in line with our updated outlook compared to $158 million in 2016.

Adjusted diluted earnings per share from continuing operations in the third quarter was $0.14 per share compared to $0.16 a share in the prior year. And on a year-to-year basis, adjusted operating income was $351 million compared to $360 million with adjusted diluted earnings per share from continuing operations of $0.37 per share compared to $0.35 in the prior year.

I'm also very pleased on a year-to-date basis we've generated $360 million of free cash flow, which is in line with our full year guidance. Even after making several investments to strengthen our business, including the CompuCom acquisition, we still maintain a solid liquidity position with cash and an undrawn ABL credit facility that provides us with substantial financial flexibility for the future.

Turning to Slide 5. I want to talk to you about the strategic pivot we're making as a company. We all know that information technology has dramatically changed the way businesses work. The function of a traditional office-supply product, such a writing pad to capture a thought or a printed presentation as a way to communicate information is increasingly moving into the digital world. This is why I have said in the past, I believe, technology is the office supply of the future. Because this evolution in technology is putting pressure on several of our traditional categories, including paper, ink and toner, I believe it's important that we transform our business as well from a primarily product-based transaction company to a services-driven company that can provide a wider range of solutions for our small, medium and enterprise customers.

When I arrived at Office Depot, I took a holistic look at the company to identify our fundamental strengths and assets as an organization. As you know, I bring a technology and supply chain background to this business, and I believe having that outside perspective has helped me appreciate these core attributes and think about how we can utilize them in new ways to drive value.

Starting on the bottom of the slide. The first asset I saw in the company was a robust supply chain, with global sourcing capabilities and ability to deliver products to customers in approximately 98% of the ZIP codes in the United States on a next-day basis. And I'll repeat that again, that's very important, 98% of ZIP codes on a next-day basis. This supply chain is what drives our omni-channel platform and provides ability to leverage our 1,400 stores as additional local market distribution points for products and services to our customers.

The second asset I saw was the integrated omni-channel platform as a way to access customers. This included a strong online presence, but also extensive person-to-person relationships through our sales force and in stores. When you're looking at the fundamental assets of this company, our ability to leverage a one-to-one local presence is a sharp differentiator that many online-only businesses are trying to figure out. They're really focused on what do we do on the last mile. This is also a company that has millions of customers and remains top of mind, particularly, for the core products and service offerings that businesses need. Customers value the convenience and selection of our office-supply assortment and are increasingly taking advantage of our expansion into the cleaning and breakroom category as well as our furniture design and copy & print services.

But what we need is to become a more important vendor to our customers, bring our strengths to the problems, enhance what we offer and change how we think about the value we can provide. Honestly, it is not dissimilar to the history of the company that started by bringing enterprise-level pricing and access to products and services that businesses need.

We have several key growth initiatives underway as part of this pivot, with the acquisition of CompuCom being the first major step in adding key service capabilities to our portfolio. Our research shows that tech services is a large market and the most critical SMB customer need. We also believe that providing high-quality, award-winning tech services also opens the door for us to offer additional services and products to customers. This is why CompuCom will play an important part in a subscription-based business services platform we launched earlier this week, called BizBox. I'll provide additional details on BizBox in just a few minutes, but importantly, all of these growth initiatives take advantage of our omni-channel platform as a way to connect with customers.

In addition, although we are moving towards a more services-driven company, I want to remind you that services often involve products as well. So there is a natural connection. Our team has come together around this new strategy and we see benefits of both our customers and shareholders as a way to create value in the long-term. Our focus is to be a partner in our customer's success by building a broader relationship that is underpinned by an array of services as a way to diversify towards a more recurring, sticky and higher-margin revenue base.

With this clarity on where we want to go, we built the strategic plan as outlined on Slide 6. While this pivot will be a multiyear journey, we have a clear path to execute on a number of significant near-term opportunities, while continuing to build for our future. Let me walk you through the 3 primary pillars of the strategy.

First, we have already talked about transforming our business. The major step here was the acquisition of CompuCom and the award-winning tech services that they have now brought into our portfolio. We believe this strategic acquisition has substantial growth opportunities as we begin to leverage their capabilities across our nationwide omni-channel platform. I will go into more detail in just a few minutes, but the teams have been developing specific go-to-market strategies over the past month, and we are clearly very excited about this opportunity.

Second, we are looking out into the future at ways to disrupt the market and challenge the traditional ways of thinking about our core business. As I've been saying, we have compelling assets and bring fresh thinking about how to tap into these assets can produce really impressive results. This week's launch of BizBox is an excellent example of this thinking and being disruptive.

As I've been out talking with entrepreneurs and small business owners, I frequently hear that starting a business can be really difficult because they don't know where to find the tools necessary to start and grow their business. We hope to solve that problem with BizBox, our new business services platform that provides new small- and medium-sized businesses access to the core services needed to start and grow their organizations in one convenient website with one password and one monthly fee. I will discuss this later in a bit more detail, but we are really excited about the potential of this new platform as a way to provide a wide number of services to small business. This one-stop approach is unique in the market and another way, we can differentiate ourselves from the competition.

Third, although we are building for the future, we are not, let me repeat that, we are not abandoning our core. Instead, we are concentrating on how we can improve and strengthen it. We remain focused on expanding our customer reach, adding adjacent products and services and improving our operational excellence. Most recently, we acquired 4 small independent office-supply dealers to expand our mid-market presence as well as our cleaning and breakroom penetration. We are also enhancing our supply chain capabilities to drive both cost and performance improvements and to generate additional working capital opportunities as well.

At this point, I want to dive a little deeper into the CompuCom acquisition and how we plan to maximize the value of this business going forward. For those of you who may not have seen our investor presentation announcing the acquisition, we've noted some of the highlights of the CompuCom business on Slide 7.

Beginning with what they do, CompuCom is a national provider of very high quality, managed IT services, products and solutions. In fact, they've received industry-wide recognition over multiple years as a leading IT services provider, including being currently ranked as a leader on the Gartner Magic Quadrant and receiving the highest rating for buyer satisfaction by the Everest Group in 2016. They have a broad range of capabilities to procure, install and manage the end-to-end life cycle of hardware and software for businesses and offer IT support services, including remote help desk, data center monitoring and on-site IT professionals. They have top tier cloud and data centers, nationwide call centers and the largest certified field technician workforce in North America, with over 6,000 employee-base technicians. This is a really key asset.

In an environment where trust around data security is rising, we believe having an in-house network of technicians is a real differentiating factor. They have a world-class customer base, including 6 of the top 10 Fortune 500 companies, 7 of the top 10 retailers and 6 of the top 10 financial services firms in North America. Since technology services require you to have an intimate knowledge about your customer's IT systems, this is a relatively sticky offering. As a result, a large portion of CompuCom's revenues are generated from repeat customers, and our average customer relationship is approximately 14 years. They support over 5 million unique end users and over 6 million devices, including tablets, smartphones, laptops and desktops and Internet nodes.

Clearly, CompuCom has some impressive capabilities that would have been nearly impossible for us to create on our own. However, as you will see on Slide 8, we believe the true power of this acquisition comes from combining a services-rich business with a customer-rich business to unlock a powerful growth opportunity. Fundamentally, we plan to take CompuCom's broad set of world-class IT support capabilities and leverage them across our omni-channel platform that has access to millions of customers. CompuCom will become the technology services platform for Office Depot nationwide, expanding their customer reach into our stores, across our digital platforms and through our 1,500 sales professionals across the country. We believe that with a minimal upfront capital cost, we can place a Tech-Zone services desk in retail stores across the country and utilize excess capacity that exists within our network of technicians.

Providing tech support and repair capabilities within our stores provide immediate scale and ability to tap a clear and compelling growth opportunity with SMB customers.

Our research shows that there are nearly 6 million SMB customers within 3 miles of our approximately 1,400 stores. While Best Buy has created a technology service offering aimed at the consumer market, we believe Office Depot will be the only nationwide provider that is able to deliver world-class IT service capabilities to business customers, providing a true last mile advantage to offer technology services to the underserved SMB marketplace. While many large and established companies have extensive IT departments, that is not true for most SMBs. Think of a local business owner or a sales professional who's traveling and suddenly has an IT-related problem. That person, at best, is on a phone trying to solve the issue miles away from their office. With our offering, that person could have a licensed technician deployed to their location, connect remotely to a help desk or walk into a convenient local Office Depot store for a complete support and service from the organization that is recognized for delivering world-class service. The added service revenue and increased traffic also helps to improve store profitability.

Our analysis has shown very little customer overlap between the existing Office Depot and CompuCom customer bases. We believe this will provide meaningful immediate cross-selling opportunities to our 1,500 sales professionals as they are now able to offer a broader suite of products and services across the combined customer base. We're also putting incentive structure in place that is specifically focused on driving services revenue across our business.

Lastly, the combined entity will have a significant purchasing power that provides increased scale to lower cost and benefit customers. While we see a large opportunity with SMB customers, we'll also continue to focus on providing world-class services to the core enterprise businesses that has made CompuCom successful. The scale and purchasing benefits from this combination will actually enable further efficiency initiatives focused on automation and innovation that can be leveraged across the entire CompuCom customer base going forward.

Together, we believe Office Depot and CompuCom deliver a unique solution that will be positioned to capture market share in a highly fragmented $25 billion managed IT services market.

Turning briefly to Slide 9, as I mentioned earlier, the teams have been hard at work over the past month developing initial go-to-market strategies for the combined business. Now that the acquisition has been completed, we'll immediately begin implementing all these initiatives across each of the go-to-market channels. Since there's very little overlap between Office Depot and CompuCom customer bases, many of these initiatives are focused on cross-selling opportunities, and we're going to begin training the sales teams at both companies immediately.

In addition, we're building out the in-store and online components of the service offerings that will be supported by marketing and promotional materials that increase awareness and position Office Depot as a leader in managed services, with emphasis on our award-winning credentials. We believe this will be essential in taking market share from small local providers that represent about 75% of the marketplace today.

Lastly, we expect to introduce a new indirect channel, Feet on the Street Program, and other partnerships that utilize a variable incentive structure to drive services revenue and capture market share. This is a new and exciting sales channel for the company, and I have recently brought in Janet

Schijns to lead these efforts for us. Janet came to us from Verizon, where she was the Chief Channel Executive and successfully drove customer growth and revenue in their enterprise, commercial and government channels.

Turning to Slide 10. We've also started to develop specific service bundles targeted at the SMB market, building on the successful Tech-Zone offerings from CompuCom. Our offerings will be tiered based on customer size, need and budget and focused on managed subscriptions and packages. Additionally, a la carte options will also be available as well as the fully customized offers that CompuCom provides today for a large enterprise customers with more complex needs. You'll note that we're also including our Centriq asset tracker with certain packages as well as discounts on our core office products for subscribers. In addition, to being the first nationwide company to offer enterprise-level IT services across an omni-channel platform, we also believe the combination of products and services is unique in the market and an important way to develop a broader customer relationship that are key component of our strategy.

While a services-driven experience needs to permeate every aspect of our organization, how it represents itself in a retail platform will be critical.

On Slide 11, we provided a rendering of how we plan to incorporate the Tech-Zone services desk into our stores. You'll also note that the new service desk is more customer friendly and integrated into the flow of the store. We're also building an appointment scheduling system so that customers can get the support they need when they need it without waiting in line.

We expect to have approximately 28 Tech-Zone service desks completed by the end of 2017 in our Austin, Orlando and Tampa test markets. The teams are finalizing the 2018 rollout strategy, but we plan to aggressively expand into additional markets in the coming year.

Turning to Slide 12. I want to shift gears for a minute and talk about our second initiative to pivot into a more service-driven company. Earlier this week, we unveiled BizBox, our business service platform for startups and small business leaders, exactly like CompuCom, and makes us a meaningful partner to our customers, utilizes our core strengths and demonstrates our new capabilities. As I mentioned earlier, it was borne out of listening to our customer's need in order to start and take care of their businesses everyday.

Starting and managing a small business is time-consuming and can be overwhelming. Most owners don't have the bandwidth necessary to evaluate and piece together a diverse set of services for multiple vendors that aren't integrated and don't work together. BizBox is built on a simple concept. Business owners are looking for a single convenient platform to access the fundamental services necessary to start and manage and take care of their business.

As you can see on Slide 12, the core BizBox offering includes services, such as website hosting and design, digital and social marketing, our Centriq asset management platform, finance and accounting, CRM and HRM payroll support. We also believe that technical support services provided by CompuCom can create a great entry point for businesses to utilize the additional services available on BizBox.

We have purposely built the platform to be extremely flexible so that digital services can be seamlessly added in the future to create even more customer value. It is initially available through an integrated online platform with direct access to BizBox Pros to help navigate each service and help customers succeed in their business. This is a concept we've tested with a small group of customers so far, and we've received really strong positive feedback. It is based on a monthly subscription, which is aligned to our strategy to build new recurring revenue models across the company.

Looking ahead, we think BizBox can be a core part of the Office Depot portfolio as we add additional services to the offering and explore ways to fit BizBox into our omni-channel platform, including an in-store presence.

Finally, as I mentioned earlier, although we are focused on pivoting to a more services-driven company, we are not abandoning our core. In fact, we believe that leading with services can be complementary and increase associated product sales.

On Slide 13, you can see a number of new initiatives we have underway across the business to drive improved demand generation, expand and innovate our product and service offerings, broaden our customer relationships and improve our overall execution across the business.

In addition, we recently acquired several small regional office products in janitorial supply companies in order to improve access to customers in select geographic markets within the United States and increase our presence in the cleaning and breakroom category. These acquisitions also add new variable selling models, supply chain capabilities and purchasing scale that the company plans to leverage across its existing operations.

Lastly, since joining Office Depot as CEO, I have made a number of key executive hires to bring new talent and experiences in the organization, including Jerri DeVard as Chief Marketing Officer; Janet Schijns as Chief Merchant and Services Officer; and David Bleisch as Chief Legal Officer. Collectively, they bring proven experience in services, innovation, both product and business model and demand generation in order to support all 3 of our strategic pillars to transform, disrupt and strengthen our core operations.

In conclusion, as shown on Slide 14, we believe our new strategic direction is building a path to a sustainable future revenue growth for the company. By expanding our product and service offerings, making investments in innovation and critical capabilities, such as supply chain, merchandising and marketing, we can then improve the customer experience and drive demand generation, which ultimately creates broader and deeper customer relationships that can drive sales across our go-to-market channels. We certainly don't expect this transformation to happen overnight, but I believe we have the right strategy, are making the right investments with the right team to position Office Depot for the future.

I will now turn the call over to our CFO, Steve Hare, who can provide more details on our third quarter financial results. Steve?

Stephen E. Hare - *Office Depot, Inc. - Executive VP & CFO*

Thank you, Gerry, and good morning, everyone. I'm happy to be here today to discuss with you our third quarter results.

As noted on Slide 16, we have highlighted some key performance measures for the third quarter and year-to-date 2017 period. I will primarily focus my comments on the performance from our continuing operations as I have done in previous calls. Also keep in mind that the financials I will talk about do not include the CompuCom acquisition, as this transaction closed this week and will be included beginning with our fourth quarter results.

Total company sales declined 8% in the quarter compared to the same period last year. Excluding the impact from planned U.S. retail store closures in the prior 12-month period and foreign currency translation, adjusted sales declined 6% compared to the prior year. The decline was primarily due to prior year customer losses in our Business Solutions Division and lower traffic in our retail stores.

As Gerry mentioned, sales in the third quarter were also negatively impacted by 3 major hurricanes that disrupted our operations in the Southeastern United States, Puerto Rico and the U.S. Virgin Islands. Third quarter operating income decreased to $108 million compared to $117 million in the prior year.

During the quarter, the company incurred $23 million of operating expenses related to restructuring activities, the OfficeMax merger integration, executive transition and acquisition-related expenses. Excluding these special items, our adjusted operating income in the third quarter of 2017 was $131 million, a decrease of $27 million compared to the prior year period. The decrease was driven primarily by the negative impact from sales deleverage that exceeded the rate of reduction in our store and supply chain expenses, which are more fixed in nature. These negative impacts were partially offset by lower selling, general and administrative expenses, driven by our comprehensive business review initiatives and continued OfficeMax integration synergies.

For year-to-date 2017, adjusted operating income was $351 million, a decrease of $9 million versus the same period in 2016. We continue to improve our adjusted operating margin as evidenced by a 25 basis point increase to 4.6% compared to year-to-date 2016.

Excluding the $25 million after-tax impact from the special items mentioned earlier, third quarter adjusted net income from continuing operations was $74 million or $0.14 per share compared to $89 million or $0.16 per share in the prior year.

On a year-to-date basis, adjusted net income from continuing operations was $196 million or $0.37 per share compared to $192 million or $0.35 per share in the prior year. This is a year-over-year improvement of 6% in adjusted earnings per share.

Turning to Slide 17. Comparable sales in the Retail Division declined 5% in the quarter compared to the prior year. The comp sales decline was mainly driven by lower store traffic and average order value. The third quarter is typically our strongest period for our Retail Division, but this year, we experienced a soft back-to-school shopping season as well as hurricane disruption, which affected approximately 220 stores. Total retail sales in the quarter decreased 10% versus the prior year, including the impact from the planned store closures in the prior 12-month period.

Looking at our performance by product category. Retail sales decreased across most of our product categories, primarily in ink, toner and other technology items. However, sales in our cleaning and breakroom category increased double-digits compared to the prior year period as our efforts to expand this category and reposition the display of these products in the store to make them more accessible to customers continue to gain momentum. The Retail Division reported operating income of $82 million in the third quarter of 2017 compared to $105 million in the prior year period. This year-over-year decline was primarily driven by the negative flow-through impact from lower sales and a lower gross margin rate, which more than offset lower selling, general and administrative expenses realized from the company's store closure program and other comprehensive business review initiatives.

During the third quarter, we closed 4 stores and ended the quarter with a total count of 1,404 stores in the Retail Division. This brings the total closures under the second phase of our retail optimization plan to 109 stores.

Slide 18 shows the performance of our Business Solutions Division, or BSD. Sales in the third quarter of 2017 were $1.3 billion, a decrease of 4% from the prior year period, which includes a benefit of about 20 basis points from foreign currency translation. Although the year-over-year sales declined, we did experience a sequential improvement of approximately 200 basis points compared to the second quarter as new customer wins were realized. The sales decline versus 2016 was primarily driven by prior year customer losses in our contract channel, continued competitive pressures and the impact of sales from our omni-channel programs, which are recorded in the Retail Division, where these orders are fulfilled. In addition, sales were impacted by the 3 hurricanes during the quarter, which disrupted deliveries to our customers.

Looking at our performance by product category, BSD sales decreased versus the prior year in supplies and technology with our copy & print business remaining flat. Alternatively, our cleaning and breakroom and furniture categories achieved positive sales growth compared to the prior year as we continue to focus on expanding and growing adjacencies. The BSD division reported operating income of $71 million in the third quarter of 2017 compared to $81 million in the prior year period. This year-over-year decline was primarily driven by the negative flow-through impact from lower sales and a lower gross margin rate, which more than offset lower selling, general and administrative expenses from cost savings and efficiencies.

Turning to the balance sheet and cash flow highlights on Slide 19, we ended the third quarter of 2017 with total liquidity of $1.8 billion, consisting of $788 million in cash and cash equivalents associated with continuing operations and $1 billion available under our asset-based lending facility.

Total debt at the end of the quarter was $282 million, excluding $781 million in nonrecourse debt related to the timber notes and the CompuCom financing, which will be reflected in the fourth quarter.

For the third quarter of 2017, cash provided by operating activities of continuing operations was $293 million. This included outflows of approximately $16 million in restructuring activities and $12 million in OfficeMax merger integration cost. Capital expenditures were $37 million in the third quarter, $3 million of which related to the OfficeMax merger integration. We generated free cash flow from continuing operations of $256 million for the third quarter of 2017.

The strong cash flow generation in the third quarter brings our year-to-date 2017 free cash flow of continuing operations to $316 million, consisting of $408 million in cash provided by operating activities of continuing operations, less $92 million in capital expenditures.

As part of our shareholder return initiative, the company repurchased approximately 4 million shares of its outstanding common stock during the quarter for a total cost of $17 million. Since the share repurchase program began in May of last year, we have repurchased about 45 million shares of common stock for a total cost of approximately $166 million with a weighted average price of $3.71 per share. At the end of the third quarter, $84 million remained available for repurchase under the current $250 million buyback authorization. In addition, a quarterly cash dividend of

$0.025 per share was paid on September 15 to the shareholders of record for a total of approximately $13 million. We also announced this morning that our Board of Directors has approved a quarterly dividend payment to be paid to shareholders on December 15.

Late yesterday, we completed the acquisition of CompuCom for approximately $940 million. The transaction was funded with a new $750 million 5-year senior secured term loan, the issuance of approximately 44 million shares of common stock to the seller and approximately $55 million of cash on hand. Proceeds were used to repay all of CompuCom's

debt. We continue to maintain low balance leverage and believe our strong liquidity position and positive free cash flow provides significant flexibility for future debt repayments, capital returns to shareholders and other growth opportunities.

Slide 21 outlines the key components of our 2017 outlook. We continue to believe total company sales in 2017 will be lower than 2016 on a comparable 52-week basis. This decline is primarily a result of our planned retail store closures, lower store traffic during this year's back-to-school season and ongoing competitive pressures in the market, in addition to the disruption from the 3 major hurricanes. However, we do expect another sequential improvement in the BSD rate of sales decline in the fourth quarter on a comparable 13-week basis as we anniversary prior year contract customer losses, implement new customer wins and grow from strategic business initiatives.

As you may recall from our announcement on October 3, we updated our full year 2017 guidance for adjusted operating income to be between $400 million and $425 million due to higher supply chain cost related to the planned consolidation of our vendors and warehouses, hurricane impacts and continued investments in connection with the company's new strategic direction. I also want to point out that during the third quarter of 2017, the company reduced its U.S. tax valuation allowance, and as a result, realized a noncash income tax benefit of approximately $37 million. This tax benefit results in the company reporting a GAAP effective tax rate of 2% for the third quarter. Although our GAAP effective tax rates have varied considerably between periods, we expect our 2017 non-GAAP annual effective tax rate, which excludes such valuation adjustments, to be approximately 41%. After a strong third quarter cash performance, we are in line to generate more than $300 million in free cash flow from continuing operations. Capital expenditures from continuing operations are now estimated to be approximately $125 million in 2017, a reduction from the previous estimate of $150 million. We anticipate depreciation and amortization expense to remain at approximately $150 million in 2017.

The free cash flow outlook includes an expected cash tax rate of approximately 15% as we continue to utilize available tax operating loss carryforwards and credits.

Considering that we just closed the acquisition of CompuCom, we are still evaluating the treatment of purchase accounting and other implications on the company's consolidated financial statements and reportable segments moving forward. In addition, we are developing estimates of the necessary investments required to support the new strategic direction and transition to a services-driven business model over the coming years. Due to these uncertainties, we will not be providing preliminary guidance for 2018 at this time, although we will provide guidance along with our fourth quarter earnings call. However, we do expect 2018 sales trends, primarily driven by our Retail Division, to continue to be impacted by additional planned store closures, lower store traffic and ongoing competitive pressures with an associated flow-through impact to profitability.

Now I'll turn the call back over to Gerry for his closing comments. Gerry?

Gerry P. Smith - *Office Depot, Inc. - CEO & Director*

Thanks, Steve. I know we've run a little longer than usual today with all additional details in the CompuCom acquisition and our new strategic direction.

So now I'll turn the call back over to the operator and we can take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Dan Binder.

Daniel Thomas Binder - *Jefferies LLC, Research Division - MD and Senior Equity Research Analyst*

It's Dan Binder with Jefferies. I had a few questions. First on CompuCom. According to the slide presentation, the sales of CompuCom have been under some pressure. I was just wondering if you can give us a little bit of color around why that is. I realized there's, obviously, some top line synergies, but I'm trying to understand what is going on in the underlying business. And then the second question was around the acquisition of these dealers that you've announced. I was just curious if you can tell us in terms of size, cumulatively, what that looks like in terms of sales. And tell us a little bit about the margin structure relative to the existing deliver business.

Gerry P. Smith - *Office Depot, Inc. - CEO & Director*

Yes, Dan, this is Gerry. I'm going to start from the second question and then go back, all right? So from a dealer perspective, for competitive reasons, we cannot give specifics on size and margin structure. I will say that we're very encouraged that in the market space there and especially the SMB space is an area we think is the right opportunity for consolidation and leveraging the Office Depot synergies and footprint and capabilities. So we think it's a great market, we think it's a market we can not only sell office supplies into, we can sell CompuCom, we can sell other services as well. And if you lead with services, you can pull products through, and they get extremely sticky relative to other competitions. But I think it's a significant step in strengthening our core and I think it's a strategy you will see us continuing to evaluate going forward. Relative to the CompuCom piece, CompuCom from a whole enterprise market, from an IT perspective, has declined because of automation. I'll say Dan Stone, who -- we're really encouraged to have him on our team as a leader. As CEO, the CompuCom business has done a great job since he's taken over to actually slow down that trajectory of -- and are actually growing faster than the secular trends because they've done a great job of automation, and from an automation, AI, et cetera, et cetera. But the most important thing, was on the slide, is we think that they are very services rich. There's no one else who has 6,000 service technicians nationwide. They've certifications, they have award-winning capabilities recognized by Gartner and other people as well. We think they have services and we have reach. So we're customer rich, they're services rich and we really think that if we put the 2 teams together, 1 plus 1 is going to equal 3. And we're very optimistic that Steve's team and Dan's team has only 25% overlapping customers, for example. We think there's huge cross-selling opportunities. We've lined the teams up, we're ready to go, we've got multiple routes for market to sell the CompuCom services. There is cross-selling, there is through the stores, there is through the var channel that Janet is developing and more. And so we're bullish and optimistic that we'll see growth in this space. And lastly, very, very importantly, that's a very fragmented market. I've been involved in markets before in tech that was fragmented and it's all about size, scale, innovation and capabilities. We're going to drive that like crazy and go try to get to a #1 position in that space through consolidation, through innovation, through scales, through reach and having 1,400 distribution points is an awesome advantage for Dan's large customers as well and over time, we can service customers through stores, also with the technicians or if you're traveling on the road, you're one of those Fortune 100 -- 10 companies, want a great place to go and get your product serviced, you can go to an Office Depot and get that product serviced immediately versus having -- if you're on the road versus having to go back to corporate headquarters. So we understand the challenges, we think we can grow this business in a very substantial way moving forward. And it is sticky retentive, defendable revenue with high margins.

Daniel Thomas Binder - *Jefferies LLC, Research Division - MD and Senior Equity Research Analyst*

If I can, just a follow-up on the dealers that you announced. Yes, I understand you don't want to get into the names. But just from a modeling perspective, if we can just understand the annualized sales revenues, that would be helpful.

Gerry P. Smith - *Office Depot, Inc. - CEO & Director*

I'll let you talk off-line to Rich and Aly on that. But for competitive reasons, obviously -- we know our competitors are probably listening as well. So we don't want to go to any specifics, but we're excited with the teams we have acquired. We are excited with their experience and capabilities. There is a world-class people and we're glad to be part of Steve's team now and we're going to continue to evaluate that going forward.

Operator

Your next question comes from Kate McShane.

Kate McShane - *Citigroup Inc, Research Division - MD, Head of the U.S. Discretionary and U.S. Apparel and Retail Analyst*

Kate McShane from Citi. With regards to selling more product as a result of the services that you're now offering with CompuCom, do you have the right technology product to offer your customers as you ramp this up? And will tech product increase as a percentage of your sales? And how will that composition of your tech offering change?

Gerry P. Smith - *Office Depot, Inc. - CEO & Director*

Yes. So I'll say, yes, yes and yes. But -- well, let me go into some detail. Obviously, my background is tech, 25-plus years of tech, I'm dating myself here. I don't like to do that publicly. But #1 is our buying power doubles overnight for both sides. So there's a lot of synergy cost between both businesses. I mean, Janet Schijns, John Gannfors and Dan Stone are all tech backgrounds as well. So we will increase our ability to sell. I'll say, we'll move up to stack from a tech perspective. And, obviously, you'll have your Street Fighter II level products to bring people in. We're going to sell the whole stack. And we're going to use all channels of distribution to sell more tech and we have a much different selling position now or I'll say, negotiations are in position with our tech partners going forward. And I think it's a huge opportunity for us to put pressure on other people in the space who haven't had competition in a while. I think you know who I mean.

Kate McShane - *Citigroup Inc, Research Division - MD, Head of the U.S. Discretionary and U.S. Apparel and Retail Analyst*

Okay, great. And then if I can ask just a second unrelated question. Does the acquisition of CompuCom precludes you from buying anything else? And would consolidation of other office product retail still be something you'd be interested in pursuing?

Gerry P. Smith - *Office Depot, Inc. - CEO & Director*

I'll talk about it strategically. Then I'll let Steve talk mechanically if he would. We will continue to look and explore all options from an ability to execute to our strategy. And so we do have the flexibility, Steve did and Rich did a tremendous job on this. And we have the flexibility to continue our acquisition -- our strategy of growing to a service-driven platform. And I'll let Stephen comment on the mechanics.

Stephen E. Hare - *Office Depot, Inc. - Executive VP & CFO*

Yes, Kate, we have the usual restrictive covenants related to our high-yield offering in there, but we made sure that we have sufficient flexibility there to make sure we could reinvest in this new strategic direction that Gerry has highlighted today.

Gerry P. Smith - *Office Depot, Inc. - CEO & Director*

I really want to emphasize that we think we have a clear and concise strategy that's important. And that over a period of time, it's important that we expand our revenue base, not just the product base. I hope that came out loud and clear in my presentation, but to the services and product base. If you lock people into a relationship, you give a great customer experience. We are going to pay our associates in Net Promoter Score next year as well. That we want people to have that sticky services relationship. And then pull the products, our core products or tech products, office supplies with that relationship and then it's a different type of transaction. You're not competing on a daily basis of -- on an online bid. You have that relationship, and you're giving them that utility, that monthly service and that customer experience. It's a super important distinction, strategy wise. Thank you, Kate.

Operator

Your next question comes from Matt Fassler.

Chandni Luthra - *Goldman Sachs Group Inc., Research Division - Research Analyst*

This is Chandni Luthra on behalf of Matt. Gerry, I want to talk briefly about the BizBox business. So looking at the website, we were wondering how many of these services under the BizBox umbrella are new to Office Depot? Were you offering anything previously on the core business? And if you could discuss the margin profile of this, please?

Gerry P. Smith - *Office Depot, Inc. - CEO & Director*

Well, obviously, from a margin profile, we can't talk for competitive reasons. But from a services perspective, this is new territory. And -- but we're excited. This is a concept we kept -- we haven't talked yet with customers, to be honest with you. I had experienced it personally as well with a family member starting a business, and talking to the former CTO of Dell and some other people in Silicon Valley. There is not one company out there that gives a consolidated business platform to help small and medium business run their company. You have to do -- you spend more time worrying about that, the mechanics to run the business versus being the best restaurant in the world, the best chef, the best day care center, the best surf shop, the best brewer, the best winemaker and we think we're onto something very powerful. And all those relationships are new relationships that I'll just say that's just the beginning. I am more than excited with the response we have had under NDA. With potential new partners, we can continue to expand that wheel on an infinite basis from a services perspective. And not just services, technology, we can sell technology hardware there. We can sell office supplies there. We can sell -- obviously, we're in a league with CompuCom, but we think that it's a very exciting opportunity. We launched in beta 60 days ago, just to give some specifics, I'll try to not talk too much tech, but we always want to launch beta products and get users. So we had real live companies running this in the beta for the last 60 days. Obviously, you find your problems, you'll weed out bugs and you get better on it. And we've talked to those customers as a team, as a staff, as a company and we're very encouraged with the feedback that we think this is a huge differentiating model going forward. And the beauty of this is -- this is public information, that it starts at $99 a month, it doesn't mean that's at the top line of the models, that's just the entry-level. We believe the revenue scaling per month could be tremendously larger than that. And, obviously, we're trying to drive average revenue per account, number of subscribers and language we haven't used before. In the future, I want you to look at it differently as an omni-channel company, a B2B provider, retail distribution points for services and really a services business platform going forward. And Rich, Aly and Steve have the biggest challenges of explaining that modeling off-line. But if you do some of the -- back to the envelope math, it gets pretty exciting as we get a penetration in the marketplace here across small and medium businesses across the country. One data point out throw out to the team is that I believe is -- I mean, about 97% of the employees in the United States work for small and medium business. We'll go back and double verify that, that we're talking to a potential partner yesterday and we talked about that data point. And to me, that's exciting because if you know our strategy -- our new team strategy, it's focused on not just enterprise, as we think it's important, not just consumers, we're going to go within the SMB as well. We think our service and product-driven platform strategy has ability to differentiate SMB because we have 1,400 stores, because we Steve has 1,500 sellers, because we have a great online business, because we have a great supply chain, because we had a huge reach across our customer base that we currently have as well.

Chandni Luthra - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Very helpful. And if I could just follow up a little bit on the base business? If, Steve, you could give us a little bit more color on the division of gross margin? What were the particular drivers? Was it weakness? Was it mix or something else?

Stephen E. Hare - *Office Depot, Inc. - Executive VP & CFO*

Yes, it was not really mix. You had some sales deleverage that was really the primary driver. It went across both the Retail Division and the BSD division. And then some of the integration activities also played into our cost running higher, and I think that should be on a temporary basis as we work through that. But around supply chain, some of the closures and the consolidation of vendors played into the gross margin decline. But in some cases, we just were not able to offset the sales deleverage because some of the store and the supply chain costs, obviously, are more fixed. And so we lost a little ground in Q3 as a result of that. As I said, I think going forward, we put into place I think some improvement programs to try to address the pressure we're seeing and I think we can get back to our normal trends going forward.

Operator

Your next question comes from Adam Sindler.

Adam Harry Sindler - *Deutsche Bank AG, Research Division - Research Associate*

Deutsche Bank. Thanks for taking my question. So at the beginning of the presentation, you talked about the very little customer overlap between the core business and CompuCom. So, I guess, as we're sitting here today, cross-selling is, obviously, a key piece of this model. If we look out 12 months, what would you say from your perspective would be, A, let's say, a good result on customer overlap at that point? Maybe a great result on customer overlap at that point? And then from an organizational perspective, what will need to happen to train sort of core customers to now sell a solution to train a historically solution-based provider to sell a product? How much you need to spend to get that done? And what would that look like just from an organizational perspective?

Gerry P. Smith - *Office Depot, Inc. - CEO & Director*

Well, obviously, I'm not getting -- I can't give specifics targets, but the #1 focus of an organization is to exhibit, and I said it out loud many, many times is we need to grow as a company again. We're not going to give a time for that. But that's our focus as a company to quit the descaling and grow the business and grow a defendable sticky revenue services-based model over a period of time that sells both services and products. On the -- specifically on the cross-selling piece, one reasons why when we first started the conversations, and again, Dan and I worked together before. And it's great to have that relationship with a new leadership, and he is an outstanding leader. We were surprised by the lack of overlap, to be honest, and to be honest, it just made us both smile and Steve Calkins as well of. If you can sell -- if you're a good seller, you can sell solutions, you can sell products, you can sell services. Sellers -- we have a great sales team. I'm confident and so does Dan. We can easily cross-sell products across the category. When you need expertise that we're selling, let's say, we go into a Fortune 100 account that they're not in, that we're in. Of course, we're going to bring in an overlay sales specialist and pull in their capabilities to help us close the deal, but we're going to compensate our sellers for that opportunity identification. We're going to compensate the whole sales team as we close and grow the business. The other piece I really want to emphasize again is, a lot of people aren't catching this, but building up the var channels, value-added resell indirect channels, that's something that hasn't been done in this industry before. And we think with this pivot, with Janet's background and my background in building these capabilities in, it's extremely important because those are variable base. What that means is they don't sell in they don't get paid, so there's not a cost exposure to us margin-wise. But by giving them that capability to selling CompuCom, selling BizBox, selling our copy & print that we already have today in a bundle of small and medium businesses, and to correct my number, it's 97% of all businesses in United States have less than 50 employees, gets me even more excited. And those are the people we are going to go out and target with this indirect var channel, while still leveraging our 1,500 sellers that focus on enterprise and smaller, medium business as well as Dan's sellers as well. And let's not forget our 1,400 distribution points potentially in our stores, our seller store associates is going to see us across the company selling and services and compensate our employees for that. So the vision is growth, the vision is to pivot this company into a sustainable business platform that has a different revenue stream, a different margin structure, and to be honest with you, a different equity value from a shareholder perspective as well. We're not a retailer. We're more than a retailer. 50% of my business is services -- excuse me, it's B2B, 9% of my business as of today is tech services. It is another 6% or 7% that also services as well. So 16%, 17% of the current Office Depot is already services. Our goal is to correctly drive that aggressively over time. And so as analyst, the challenge in 2 or 3 years down the road is, the vision is services, B2B and our traditional core business as well. And our valuation model should be completely different because it's not a day-to-day product transaction we're fighting everyday. We are locking relationships in on a monthly basis, whether to manage service contract with a larger customer or a credit card type of relationship with that 0 to 50 customer. But once we have that, we're going to go give them a great customer experience and give them content, give them services, give them products.

Operator

Your next question comes from Michael Lasser.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

It's Michael Lasser from UBS. To Steve, if you looked at the business services segment, from the second to the third quarter, did growth -- did organic growth accelerate?

Stephen E. Hare - *Office Depot, Inc. - Executive VP & CFO*

I'm sorry, Michael, could you say that a little bit louder, I missed a little bit of that.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

Sure. In the Business Solutions segment, you don't want to quantify the impact from acquisitions. But can you tell us if organic growth accelerated from the second to the third quarter?

Stephen E. Hare - *Office Depot, Inc. - Executive VP & CFO*

Yes. Yes. The trend from second quarter to third quarter was organic. The acquisitions really did not have an impact on Q3. But going forward, that will be part of the improvement that we anticipate in BSD.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

And are you seeing that organic and sequential improvement from fewer contract losses, less disruption because you're now far removed from the distractions associated with the Staples acquisition? What drove the improvement?

Stephen E. Hare - *Office Depot, Inc. - Executive VP & CFO*

Yes, I mean, you're spot on. As we've talked about, the impact of sort of being on the sideline during that extended Staples' process, the 18-month process, caused our pipeline really to go to 0. We've rebuilt that pipeline very successfully to a level that's now higher than it was previous Staples' announcement. And what we've been working towards is realizing that pipeline in the revenue and that takes a period of time and it sometimes can take 3 to 6 months, depending on the complexity of the account. And I think you're starting to see that. So the organic improvement is just us being able to get back to our normal pace of activity, and I think also being very successful from a wins standpoint recently.

Gerry P. Smith - *Office Depot, Inc. - CEO & Director*

When we talked about that in previous earnings, our pipeline conversion is improving.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

Got it. And Gerry, my follow-up question is on CompuCom. Is the market for which CompuCom serves growing, such that the declines that is experienced over the last few years are the result of share losses? Or is it just that the market it's serving is actually in decline? And how -- as you are trying to turn around your core business, how do you plan on turning around the CompuCom business?

Gerry P. Smith - *Office Depot, Inc. - CEO & Director*

Yes, great question, Michael. Let me be very careful. This is very critical here. The overall $25 billion IT services market is growing. The space that CompuCom before acquisition participated in, the enterprise piece of that is declining. Dan actually grew faster than that element of market he served, which is the enterprise space. He started the test and moved into the SMB space and had some success there. He just didn't have the reach and the customer reach that we have. And so we're excited that he is already testing for about 1.5 years entering into that segment in the market, but back to enterprise, that market was declining. He grew faster in that market. We do believe with our cross-selling, we're going to be able to grow in that space over time. But the real amplifier, I want to really emphasize, those customers are critical to us, we are going to invest in them, I don't want any of those customers think we're going to walk away cause we're not. We're going to solidify down and continue to innovate. But the real growth opportunity is down in the SMB space with the certification, I mean, 6,000 technicians, that are certified 100,000 certifications plus. We're going to have certifications with our var partners as well. In the tech space, that's critical for success in selling. This isn't something someone else that's a big box retailer that hangs TVs on walls can go up and replicate. They don't have that certification and experience, world-class IT capabilities that Dan and CompuCom and the 6,000 technicians bring, and no one else will have the reach of 1,400 stores, a var channel across the piece, 1,500 sellers across enterprise. We really think this is 1 plus 1 equals 3. Now we got to prove to you guys. I understand that. This is the show-me state time. And we're going to go off and go prove that over the next 2- or 3-year period that this was the right acquisition and the right move for the company. And I've built the right team with Jerri, Janet, David, very extensive services background and expertise in selling, marketing, creating demand generation and I've got a great team here as well. And so it's putting the value as whole team together (to create one team focused on growing the core and growing the services piece. And how we'll do that, a little bit of foreshadowing. But we're going to make sure that the CompuCom business is treated as a separate entity coming out of the gate. So we don't have any disruption, but we're going to have the cross-selling to make sure we drive that across the business. And more on Analyst Day in the future, I look forward to hosting everyone and seeing no one commented yet, -- I want to comment on the services-led store when you look at that what we showed on Slide 10 or 11, that's front and center as you walk into an Office Depot store is that services led experience. The BizBox, the Tech-Zone, when you walk into the door, you'll see, in the very, very near future is being built, currently today, you're not going to be met by ink and paper, you're going to be met by a services-led experience. And we're super excited by that BizBox and Tech-Zone opportunity.

Operator

That concludes the Q&A session for today. I will now turn the call back over to Gerry Smith for any closing remarks.

Gerry P. Smith - *Office Depot, Inc. - CEO & Director*

I want to thank anyone for joining us on the call this morning. If you can't tell, we're pretty -- obviously, we're fired up, we're excited and I think completion of the CompuCom acquisitions, our launch of BizBox, our pivot to being a services-driven company and we think that's a path for successful sustainable revenue growth and profitable growth in the future. I look forward to updating you on the progress, and as we said before, we're going to have a quarterly conference call as well as an Analyst Day in early 2018. And Aly, Rich and team will come back to you in more detail. We are going to host you and we're going to have my entire team walk through the strategy. We're going to show you services-led experience. And we're going to show you the future of Office Depot. Thank you very much.

Operator

Thank you for your participation. This concludes the call. You may now disconnect.