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PRESENTATION

Operator

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

I would now 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 Joe Lower, our Executive Vice President and CFO. On today's call, Gerry will provide an update on the business, including highlights of some noteworthy achievements and progress towards our transformation. Joe will then review the company's quarterly and full year financial results, including divisional performance. Finally, Gerry will address our outlook for 2018. Following our prepared remarks, we will 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 our 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.

I will 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. Before we begin, I want to take a second to introduce Joe Lower to everyone on the call. Joe joined us on January 8 as our Executive Vice President and Chief Financial Officer. He not only brings his strong financial background to the role, but also a hands-on approach with the focus on operational efficiency that will help us continue to challenge the traditional ways of thinking about our business. Joe has already hit the ground running in the short time he has been with us. I look forward to working closely with him as we continue to transform Office Depot for the future.

Beginning on Slide 4. I'd like to share with you some of the 2017 accomplishments. First and most importantly, we launched a new long-term strategy for Office Depot that is based on creating a powerful omni-channel business services company that is built for the future. To drive the execution of this strategy, I made a number of key executive hires, which compliments the existing strong retail experience in the organization and brings proven experience in services, innovation and marketing to the company. We are individually and collectively committed to growing Office Depot. The first step of our transformation was the acquisition of CompuCom on November 8. I will share all the details with you in a few minutes, but we're already well underway in leveraging their world-class IT service capabilities and 6,000 certified technicians to grow the business and create a unique and powerful omni-channel tech services offering to the marketplace. We further enhanced our services and subscription-based offerings with the successful launch of the BizBox small business services platform late in 2017, both online and in our pilot stores.

From a financial perspective, we achieved full year 2017 GAAP operating income of $341 million, with diluted earnings per share from continuing operations of $0.27 per share. I'm very pleased that we delivered adjusted operating income of $446 million for the year, exceeding our most recent outlook of $400 million to $425 million. This was accomplished through a combination of focused initiatives and a more positive business environment than we anticipated.

The year-on-year results are down slightly versus the comparable $456 million in 2016, despite the significant revenue pressure we experienced during the year. You will hear throughout my remarks today that demand generation is a critical component of our strategy going forward, and we did see some improving trends in December, and so far, in early 2018 as well based on our efforts. I'm also very pleased, for the full year, we generated $326 million of free cash flow, which also exceeded our full year guidance. This is the second year in a row that we have generated over $300 million of free cash flow and we expect this to continue in 2018.

Our strong liquidity position and free cash flow enabled us to enter into several strategic partnerships and complete multiple acquisitions to strengthen our business during the year. I will now elaborate on the key elements of our strategy and the strategic pivot we are making as a company.

Turning to Slide 5. We are transforming our business from a primarily product-based company into a services-driven enterprise that leverages our omni-channel platform to provide a wider range of solutions for our customers. The focus on customer is key. This is a company that has millions of customers and remains top of mind, particularly for the core product and service offerings that businesses need to run smoothly every day. But our top line sales trends have continued to decline. What we need to become is a more important and more valued partner to our customers. Bringing our strengths and expertise to their challenges and changing how we think about the value we can provide. It is a customer-first mentality that we are driving through the organization and we're starting to see some favorable trends appear.

While this pivot will be a multiyear journey, we are already executing on a number of significant near-term opportunities. Let me walk you through the 3 primary pillars of the strategy and highlight some of our initiatives.

Beginning with transform. We've already talked about the CompuCom acquisition as the first major step in transforming our business to a services-driven company. We believe this strategic acquisition has substantial growth opportunities. We have made tremendous progress in training the respective sales forces and rolling out new service offerings. In addition, we are continuing to drive services and subscriptions across the company. And our Austin pilot launched earlier this month is a great example of the services-led transformation coming to life in our retail stores.

Next is disrupt. We're continuing to look out in the future at ways to disrupt the market and develop new business models. BizBox is an excellent example of this disruptive thinking in changing the way we interface with our customers. In a matter of months, we created a first of its kind, one-stop, business service and subscriptions platform for small business customers. This involved leveraging not only our existing capabilities, but also creating several new strategic partnerships. We are not stopping there. We see additional opportunities in the future to further challenge the traditional ways of thinking about our business and leverage our core assets to create compelling offerings for our customers, both products and services.

Finally is strengthen. All of the initiatives to transform and disrupt are important building blocks for the future. I want to emphasize that we are not abandoning our core, instead we are concentrating on how we can improve and strengthen it by focusing on the customer experience and delivering greater value.

As I mentioned earlier, we are increasing our focus on customers and driving demand generation, especially for services and subscriptions as a way to develop broader relationships with our customers and improve our sales trends. This year, we will also begin using Net Promoter

Score, or NPS, for the first time to track our performance through the voice of the customer. Additional initiatives in merchandising and supply chain are expected to drive both cost and performance improvements for our customers and generate additional working capital opportunities for the business.

Strengthening the core and providing customers with greater value is paramount and at the forefront of everything we do. We must and we will continue to drive our core business as it provides a solid foundation for our initiatives to transform and disrupt.

Based on this strategy, we have outlined our vision of the future on Slide 6. Over time, you will see us transition from a multi-channel business into a true omni-channel platform that leverages our capabilities and delivers a consistent experience regardless of how or where customers choose to interact with us. In order to better engage with customers and generate demand, we will continue to reduce our focus on traditional media, such as inserts and to drive digital marketing vehicles, which are more efficient, reactive and measurable to maximize our return on investments. Third, we will continue to shift from primarily products to a services-led business platform that delivers products when and where our customers need them, as well as critical services they need to run and grow their business.

And lastly, achieving this vision will enable us to build recurring relationships with customers as a valued provider of solutions. The objective of the strategy is to put Office Depot on a path that is sustainable, defendable and profitable growth. Let me say that again. Sustainable, defendable and profitable growth. By increasing our engagement with customers, we can build broader relationships that are underpinned by an array of recurring, sticky and higher-margin services, and ultimately, position Office Depot to be the preferred business platform for company's of all sizes. Our management team and our associates are energized by this new strategy and we see benefits for both our customers and our shareholders as a way to create long-term value.

Turning to Slide 7. I'm very excited to announce that CompuCom was once again positioned in the Leaders Quadrant of Gartner's recently released Magic Quadrant for managed workplace services in North America. This is an extremely prestigious and difficult to achieve industry recognition, yet one that the team at CompuCom has been able to achieve for multiple consecutive years. The report highlighted their strength for large enterprise accounts, but also noted they are one of the few large service providers with strong offerings that target mid-size businesses. I want to congratulate the entire CompuCom team for this tremendous accomplishment. And it makes me even more convinced that CompuCom was the best possible partner for us to choose as we look to expand through IT services across our customer base.

Turning to Slide 8. I want to dive a little deeper into CompuCom and how this is a key part of our transformation strategy. Clearly, CompuCom offers a broad set of world-class services as recognized by Gartner and other industry sources. They have capabilities to procure, install and manage the end-to-end life cycle of hardware and software for businesses and offer remote and on-site IT support services with their 6,000 employee-based certified technicians. As you've heard me say in the past, the true power of this acquisition comes from combining the services-rich business with our customer-rich business to unlock a powerful growth opportunity. We are on the process of leveraging these capabilities across our entire omni-channel platform that has access to millions of customers. Since the completion of the acquisition in November, we've already trained many of our inside sales associates on the various CompuCom service offerings and they are currently engaging with customers and identifying opportunities.

Although it is typically a longer sales cycle, our field sales teams have also been trained and our out in the market working with their CompuCom counterparts to identify sales opportunities within our large enterprise customer base. I'm very pleased with the level of engagement so far. We've also put an incentive structure in place that is specifically focused on driving services revenue and cross-selling opportunities across our business.

We are also expanding CompuCom's services into our retail stores and online. Our research shows that there are nearly 6 million small and medium business customers within 3 miles of our stores. We believe this last mile advantage provides us with a significant benefit in taking market share from small, local providers that represent about 75% of the $25 billion managed IT services market today. Providing tech support and repair capabilities within our stores not only provides immediate scale and the ability to tap into this growth opportunity, but it also helps us increase store traffic. So far, we have tech service desks in places across Austin, Orlando, Tampa and South Florida. And we will be rolling out additional markets in Florida, Texas, Georgia, California, Illinois and North Carolina throughout the year.

While we see a large opportunity with SMB customers, we're also continuing to focus on providing world-class services to the core enterprise business that has made CompuCom so successful. This year, we will be investing in efficiency initiatives, focused on automation and innovation that can be leveraged across the entire CompuCom customer base. The enterprise customer is extremely important and we do not want to lose focus on that. As you will hear Joe discuss in a few minutes, the CompuCom business had strong bookings in the fourth quarter and we believe these initiatives will help stabilize revenue trends in 2018.

Turning to Slide 9. Since the completion of the acquisition, the teams have been hard at work developing a go-to-market strategy for the combined businesses. And we currently have 2 subscription-based device managed service packages that are live in the market today. The first provides access to unlimited IT support, either online or by calling into a CompuCom IT help desk. The second package includes the same support options, in addition to monitoring your device and proactively resolving any potential security or operating issues before the impact performance. This is accomplished with an automated agent that is downloaded onto your computer to do the remote monitoring. We have also recently launched tech services for customers looking for on-demand, transaction-based device support. This offering caters to more à la carte customers that also leverages the installed agent to proactively monitor and diagnose performance issues. The platform also allows us to perform diagnostic tests, virus removal and other services in-store and will allow us to launch the offering online as well.

Like the device managed services offering, it's also currently live nationwide in our retail store locations. For larger customers, CompuCom provides fully-customized IT services offerings for customers with more complex needs. These often involve utilizing CompuCom's remote and field service team of technicians to provide dedicated support. As I mentioned earlier, these opportunities generally have a longer sales cycle, but much higher revenue per account long term. Tech dispatch services are currently available in the Austin, Orlando and Tampa markets and will be moving online and nationwide in the second quarter. This is a convenient option for customers who need to schedule a technician's visit to their office and is one way we are beginning to leverage the CompuCom technicians in the field.

Lastly, we're also building a subscription security offering for the small and medium businesses, that we'll be launching nationwide with a very well-known partner late in the second quarter. Later this year, we expect to introduce a new Feet on the Street Program, using indirect sales agents and a variable incentive structure to further drive small and medium business sales. In addition to these IT service offerings, they will also help drive sales of BizBox and our other subscription offerings as they are launched throughout the year. The teams have done a tremendous amount of work in a short period of time and we're clearly very excited about the potential future growth opportunities for this business.

Turning to Slide 10. You can see how this transformation extends into the services-led experience we are creating in our stores. In our new Austin flagship location, the entire front section of the store is focused on engaging and inspiring customers with a focus on service offerings, including copy and print, technology products and services as well as furniture and workspace design capabilities. This look is clean and modern, with the focus on interactivity. And since we want to increase our partnerships with the local business community, we have included a workspace area where small businesses can connect to network. To bring this vision to life, we've empowered our associates with specialized sales training, focused on providing complete customer solutions, combining both products and services.

On Slide 11, you will see the transformation that was just completed in our Austin pilot market. The objective is to drive an increase in sales, brand perception and omni-channel customer engagement through a full market rejuvenation. This test builds on our previous learnings by bringing business services to the forefront and enhancing the look and feel of all 14 stores in the Austin market.

We've built the downtown flagship store using the completely new store design that I highlighted on the previous slide. It includes all of our service offerings, as well as a commercial grade furniture showroom, virtual reality office designer, 3D printing capabilities and a Dell-branded store-within-a-store. You will note that we've integrated BizBox into the design with a dedicated BizBox consulting hub in the center of the store and BizBox powered by Office Depot signage on the exterior of the building. We hosted a grand opening event at the flagship store on January 30 and the response was simply amazing. The event was cohosted by Fast Company and Inc. Magazines, and I want to thank them for their support and attracted over 400 attendees from the local community. The store was packed. And it's great to see so many people and small business owners come out to support the launch and hear about our vision. We see events like these as an opportunity to engage with the businesses surrounding our stores and provide them with knowledge, inspiration and networking opportunities, while providing Office Depot with richer customer information and a forum to present our business services and solutions.

For the non-flagship locations, we took a lower-cost, hybrid approach and incorporated many of the successful design elements from the flagship store, including the improved signage and navigation, dark ceilings and enhanced lighting. These stores create a similar services-led experience by integrating BizBox, tech services and copy and print immediately when you enter the store.

Most importantly, because this is a full market pilot, we can implement a coordinated marketing strategy to drive awareness and communicate the benefits of the new format to customers, including hyper-local digital, broadcast and outdoor components, all centered on the local business community and offering a business services platform for them to utilize.

We have an additional flagship location currently under construction in Los Gatos, California, and expect to use the learnings from these pilot markets to develop our rollout strategy into digital markets in 2018 and beyond.

Turning to Slide 12. I want to talk a bit more about how we're using nontraditional thinking to create disruptive and new business models for our future. BizBox is our unique one-stop services platform for small business and is built on a simple concept. Business owners are looking for a single, convenient platform to access the fundamental services necessary to start, manage and grow their business. Business made simple. As you can see on the slide, the core business offerings include such services as web hosting and design, digital and social marketing, our Centriq asset management platform, our technical services and Tech-Zone offering, finance and accounting, CRM and HRM payroll support. And potentially in the future, more and more services as well. We have purposely built the platform to be extremely flexible, with one convenient website and one password. So additional services can be seamlessly added in the future to create even more customer value. It is also based on a simple monthly subscription, which is in line with our strategy to build new, re-occurring, sticky revenue models.

The feedback so far has been very positive and customers are impressed with how many ways we can partner with them and offer a wide variety of services and solutions. We are very excited about the potential of this platform. And looking ahead, we think BizBox can grow to be the disruptive idea that helps us achieve our pivot to a services-driven company.

While we are excited by the transformational and disruptive changes underlying in the business, on Slide 13, you can see several of our initiatives to strengthen our core. It starts with an increased focus on the customer and how we are redefining the experience and our offerings to attract and retain high-valued business customers. This focus extends across the entire enterprise as we evolve the look and feel of our stores and our websites, the products and services we offer and how we engage with customers from a marketing perspective. I spoke earlier about the shift we are making towards digital marketing to more efficiently and effectively engage with customers, especially online, where they are first beginning their shopping journey. We began the shift in Q4 of 2017 towards digital and broadcast media, specifically targeting small and medium businesses. With a more focused strategy, we delivered a higher return on investment, improved traffic trends, so the first in a long time, as well as growth in the new business customer acquisition, which also was the first in a long time as well. We plan to continue to optimizing our media mix to reach high value businesses and expand our focus to include customer retention, while also including a services message in all of our marketing on a consistent basis.

During the fourth quarter, we also started to activate a subscription-based customer focus across our business. And I'm really excited by this. This included the launch of a new Ink and Toner subscription offering in our stores. I'm very pleased that in the past 3 months, we have signed up over 145,000. I'll say that again, 145,000 subscriptions for this service. And if a customer is using ink, they're also likely using paper. We're also rolling out a companion paper subscription offering this quarter as well. This highlights the value and the reach of our retail associates to sell subscription services across our business and the omni-channel platform. This is a great example of how we are incorporating a subscription-based focus into all we do. And it shows that customers are ready to sign up when we offer them an attractive and convenient service offering. We are accelerating the launch of several additional innovative subscription service offerings throughout the year as a way to build a longer-term and recurring customer relationship.

On Slide 14, you will see that we are also continuing our expansion into new categories, channels and industry vertical markets as a way to further strengthen our core. Our cleaning and breakroom business in our BSD division grew in 2017 and we expect to see additional growth in this category in 2018.

During the year, we also acquired several small regional office products and janitorial supply companies and we will continue to explore select acquisitions when they make sense. Our focus is on small tuck-in acquisitions for both BSD and CompuCom, where we can further expand our capabilities and customer reach, while leveraging our scale for synergy benefits.

Beyond services and subscriptions, we have an initiative underway to optimize the product assortment and significantly reduce the number of nonproductive SKUs and replace them with a more curated assortment of on-trend and faster turning products, focused on our business-minded customers, which will drive improved free cash flow for our business. Along with this product rationalization, we're also implementing a buying for growth initiative to consolidate volume and drive to the lowest overall net product cost with our key vendor partners. The savings from this program will be reinvested into an everyday competitive pricing test that we have underway on select services and product categories.

As we drive demand online and into our stores, we need to ensure customers that in addition to service and selection, they can count on Office Depot to deliver everyday value with a fair and competitive price. One way we can add customer value is by continuing to work with our suppliers to design new and innovative private label products that are exclusive to Office Depot. Our TUL brand is a great example of how we create a very high quality line of writing instruments and organizational products and we believe we have additional opportunities across a number of key product categories with this brand.

I will now turn the call over to our CFO, Joe Lower, who can provide more details on our financial results. Joe?

Joseph T. Lower *Office Depot, Inc. - Executive VP & CFO*

Thank you, Gerry, and good morning, everyone. I'm very happy to be here today and look forward to working with the talented team that has been assembled at Office Depot to successfully transform this company. I can tell you in the short time that I've been here, there is a positive buzz of enthusiasm and energy that is very motivating and underlies my confidence that we're on the right path to grow this company long term.

With that, let me address our recent financial results. We have provided our results on both a GAAP basis and an adjusted basis from continuing operations. My comments will primarily address the performance from our continuing operations on an adjusted basis, and where applicable, on a comparable 52-week basis, excluding the 53rd week in 2016. Also keep in mind that the financials include results from the CompuCom acquisition only for the period subsequent to the purchase on November 8, 2017. So we recognized approximately 7 weeks of results in 2017.

Let's please turn to Slide 16. Here we have highlighted some key performance measures for the fourth quarter of 2017. Total company sales for the fourth quarter totaled $2.58 billion, a decline of 5% compared to the same period last year. On a more comparable basis, adjusted sales declined 4% versus the prior year, excluding the impact from store closures, foreign currency translation, the CompuCom acquisition and the additional selling week in 2016. The decline was primarily due to lower transaction volumes in both our Retail and Business Solutions divisions.

Fourth quarter GAAP operating income increased to $59 million compared to $57 million in the prior year. During the quarter, the company incurred $36 million of operating expenses related to the restructuring activities, the OfficeMax merger integration, acquisitions and asset impairment charges. Excluding these items, our adjusted operating income in the fourth quarter of 2017 was $95 million, approximately flat compared to the prior year period, excluding the 53rd week benefit in 2016.

The company's cost savings initiatives reduced selling, general and administrative expenses, which helped to mitigate the negative flow-through impact from lower sales.

In the fourth quarter of 2017, we recorded a net tax expense of approximately $68 million, resulting from a change to our deferred income tax liability related to the new Tax Reform Act. Excluding the impact from this tax expense and the after-tax impact from the special items mentioned earlier, fourth quarter adjusted net income from continuing operations was $45 million or $0.08 per share compared to $59 million or $0.11 per share in the prior year.

Now let's turn to Slide 17. For the full year 2017, company sales totaled $10.24 billion, a decline of 7% compared to the same period last year. On a more comparable basis, adjusted sales declined 5% versus the prior year, excluding the impact from store closures, foreign exchange translation, the CompuCom acquisition and the additional selling week in 2016. The decline was primarily due to lower transaction volumes in both our Retail and Business Solutions divisions.

Adjusted operating income was $446 million, a decrease of $10 million versus the comparable 52-week period in 2016. The full year decrease was primarily driven by the negative impact from sales deleverage that exceeded the rate of reduction in our store and supply chain expenses, which are a more fixed in nature. Adjusted operating income is roughly in line with our 2016 results despite experiencing significant revenue reductions on a year-over-year basis.

As I mentioned earlier, we recorded a net tax expense of approximately $68 million in the fourth quarter related to the new Tax Reform Act. Excluding the impact from this tax expense and the full year after-tax impact from the adjustments mentioned earlier, adjusted net income from continuing operations for 2017 was $241 million or $0.45 per share compared to $251 million or $0.46 per share in the prior year.

Turning to Slide 18. Reported sales in the fourth quarter for the Retail Division were $1.2 billion, a decline of 15% in the quarter compared to the prior year. Excluding the impact from planned store closures and sales from the additional 53rd week in 2016, comparable sales decreased 4% versus the prior year. The comparable sales decline was mainly driven by fewer transactions and lower average order values. Although quarterly comparable sales were down versus the prior year, the rate of sales decline improved sequentially based on relative improvement in store traffic, resulting from deliberate shifts in our marketing mix.

Looking at our performance by product category. Comparable retail sales declined within our technology category, but remained flat in supplies and furniture compared to the prior year. In addition, sales in cleaning and breakroom continue to show strength as our efforts to expand this category and reposition the products in the store for better accessibility continued to gain momentum.

The Retail Division reported operating income of $40 million in the fourth quarter of 2017 compared to $48 million in the prior year period, excluding the 53rd week in 2016. 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 reduced selling, general and administrative expenses realized from the company's store closure program and other cost reduction initiatives.

During the fourth quarter, we closed 26 stores and ended the year with a total count of 1,378 stores in the Retail Division. We believe that retaining the retail footprint is a critical part of our omni-channel strategy going forward, and as such, we have significantly slowed the pace of future store closures with only approximately 20 net store closures planned in 2018.

Slide 19 shows the performance of our Business Solutions Division, or BSD. Reported sales in the fourth quarter for BSD were $1.3 billion, a decline of 7% in the quarter compared to the prior year. Excluding the impact from the additional 53rd week in 2016, comparable sales decreased 3% versus the prior year.

Although sales declined year-over-year, we did experience a sequential improvement of approximately 150 basis points compared to the third quarter as new customer wins were implemented. The sales decline versus 2016 was primarily driven by lower average sales volume, a shift in the holiday calendar and the impact of sales from our growing omni-channel programs, which are recorded in the Retail Division where these orders are fulfilled.

Looking at our performance by product category, BSD sales decreased in supplies and technology, but remained flat in cleaning and breakroom versus the prior year. We did experience growth in our furniture and copy and print businesses as we continue to focus on expanding these adjacencies. The BSD division reported operating income of $68 million in the fourth quarter of 2017 compared to $71 million in the prior year period, excluding the 53rd week benefit in 2016. This slight 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 reduced selling, general and administrative expenses from cost savings and efficiencies.

Looking at Slide 20, shows the performance of our newly reported, CompuCom Division, from the November 8 acquisition date. Sales for the shortened fourth quarter period were $156 million. The CompuCom Division ended the year on a strong note as project order volumes achieved record levels in the fourth quarter and service orders were up also and reached their highest level in 2 years. The CompuCom Division reported operating income of $8 million during the period of our ownership in the fourth quarter of 2017. This performance was favorably impacted by a higher gross margin rate compared to the previous periods and lower selling, general and administrative expenses as a result of cost reduction initiatives.

Turning to the balance sheet and cash flow highlights on Slide 21. We ended the fourth quarter of 2017 with total liquidity of $1.5 billion, consisting of $622 million in cash in continuing operations and over $900 million available under our asset-based lending facility. Total debt at the end of the quarter was $1 billion, excluding $776 million in nonrecourse debt related to the timber notes.

For the full year of 2017, cash provided by operating activities of continuing operations was $467 million. This is an increase over the prior year, excluding the Staples termination fee and associated costs in 2016, reflecting a greater focus on working capital improvements, including targeted inventory reductions.

Operating cash flow for the year includes outflows of approximately $53 million in OfficeMax merger integration costs, $53 million in restructuring activities and $15 million in acquisition-related costs.

Capital expenditures were $141 million in 2017, $19 million of which related to the OfficeMax merger integration. Net-net, we generated strong free cash flow from continuing operations of $326 million in 2017.

In the fourth quarter, the company repurchased 6 million shares of its outstanding common stock for approximately $22 million. For the full year 2017, the company repurchased approximately 14 million shares for a total cost of $56 million.

In addition, a quarterly cash dividend of $0.025 per share was paid on December 15 to shareholders for a total of approximately $14 million. For the full year 2017, we paid dividends to shareholders, totaling $0.10 per share or approximately $53 million.

One final note, we successfully closed on the sale of our business in Australia earlier this month. Since first announcing the international divesture strategy in late 2016, we have successfully closed on the sale of Europe, South Korea, China and now Australia. The sale of the remaining business in New Zealand remains subject to obtaining the necessary regulatory approvals.

Finally, I want to remind you that we'll be hosting our 2018 Investor Day on May 16 in New York City. We are excited about this event, not only to share more details on our strategic transformation and long-term outlook, but also to provide you an opportunity to interact with the impressive leadership team that Gerry has assembled. I hope to see you there.

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

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

Thanks, Joe. Overall, I am pleased with our performance in 2017, believe we have the right long-term strategy in place and I am encouraged to see our initiatives to transform the company beginning to gain traction. However, we must do more to reverse the persistent revenue declines that have impacted our business over the past several years.

As you have seen in the 2018 outlook provided with the press release this morning, we will face additional top line headwinds this year. Our current outlook is for combined company sales of approximately $10.6 billion in 2018 or down about 5% compared to $11.1 billion in 2017 on a pro forma basis for CompuCom.

The primary driver of this decline is from the continued market pressure within our Retail Division and the impact of previous store closures. While the rate of decline is expected to improve on a relative basis, we still have work to do in order to stem the decline. In contrast, based on the trends we've experienced in Q4 and the early successes of the initiatives that are underway, we anticipate that sales in both the Business Solutions Division and CompuCom will be approximately flat in 2018. This is a very significant accomplishment and reverses the year-over-year sales declines that we've experienced in both of these businesses over the past several years. This will also be a major milestone for us as having stability in our core is one of our most important long-term strategic pillars.

To address the sales decline in Retail, we are moving forward to accelerate a number of initiatives this year, including the focus on digital demand generation, growing our tech services, the expansion of BizBox and the launch of our subscription-based service offerings on a nationwide basis. It is critical that we accelerate our strategic shift to a recurring, services-based model that leverages our omni-channel capabilities and builds a broader and stickier relationships that make us a more important partner long term to our customers. And we are seeing some early green shoots of improvements, which is why we're making the necessary investments behind these initiatives.

As I mentioned earlier, we did see improvement in retail store traffic trends during the fourth quarter and expect both traffic and conversion rates to improve in 2018. I'm also encouraged with the early success of our Ink subscription program and believe that creating a services-led retail experience can be a unique point of differentiation that ultimately brings stability to our retail business.

We recognize that 2018 is an important year of transition for Office Depot and that the investments required to advance our multiyear transformation will have an impact on near-term profitability. Our outlook is for full year 2018 adjusted operating income of approximately $350 million, with the flow-through impact of lower sales being the largest contributor to the year-over-year decline. That is why it's so important that we attack this issue head-on in 2018. We will benefit this year from incremental operating income related to the CompuCom business and synergies, offset by the incremental investments mentioned earlier, as well as additional pressures related to compensation expense and pension accounting changes year-over-year. We have provided a detailed year-over-year walk for both sales and adjusted operating income in the appendix of this presentation.

Despite these investments, we will continue to make cash flow, an important priority across the business, and expect to once again generate approximately $325 million in free cash flow for this year. Our ability to generate free cash flow enabled us to make the necessary investments and fund these future growth engines as we continue to execute against our long-term strategy.

As we look to 2019 and beyond, I expect that 2018 will be our pivot year as the actions we have already taken, coupled with the additional initiatives and investments we have planned this year, should allow us to grow year-over-year profitability in 2019. This perspective is based on the positive trends we are starting to realize across the enterprise and continued benefits from the numerous improvement initiatives we have underway. This includes the expansion of our services and subscription offerings, the aggressive demand generation that is beginning to drive improvements in traffic and the growth in number of active business customers and the stability we are seeing in our Business Solutions and CompuCom Divisions and our expectations for future growth.

I look forward to spending more time on our strategy, initiatives and long-term outlook when we get together with the rest of my leadership team at our upcoming Investor Day in May.

I will now turn the call back over to the operator so we can take your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Matt Fassler.

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

Matt?

Operator

We'll go to our next question. Please make sure to state your company name, Elizabeth Suzuki.

Jason Daniel Haas ***BofA Merrill Lynch, Research Division - Analyst***

This is Jason Haas on for Liz Suzuki from Bank of America. So I wanted to ask about the competitive environment for the contract business. You guys didn't mention the overhang from the merger, which had been talked about for some time. So I'm just curious if you guys still think that's an overhang or maybe there is something else that's kind of preventing that business from ramping up more quickly?

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

Well, this is Gerry. I think you saw that we're optimistic in 2018, that we're going to be flat on an overall BSD basis. So and we see -- we saw 150 basis point improvement in Q4 to the BSD business. So as we talked about in all the previous earning calls, we're starting to see traction. Every quarter we've improved and we actually think we have line of sight to '18 to have the business flat, which has been the first time in a long, long time that business is in that direction so. And we're optimistic that we've turned the corner and we're past those headwinds on the acquisition and we're moving forward into getting into a -- helping consolidate the market in that space.

Jason Daniel Haas ***BofA Merrill Lynch, Research Division - Analyst***

That's great. And then as a follow-up, so I wanted to talk a little bit about BizBox. It's obviously kind of a big change in strategic direction for you guys. So I wanted to ask just in terms of the capabilities that you're able to leverage from your existing business, obviously the storefront is important. But just in terms of the service offerings, maybe you could describe what, I guess, the capabilities that you've developed from your previous service offerings? And then just may be anything else that you all need to develop internally or maybe look elsewhere to kind of on be able to offer those new services?

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

Yes. So this is both partner base, as well as internally based as well. As we did the research to the marketplace, one of the biggest demands for service from small and medium business was technical services. So now you see a clear connection of why the CompuCom acquisition was so strategic. If you're a small and medium business, you don't have any options if you are 5 to 15, 20-person company, where do you go to when you have a router issue or a server issue or device issue? You have to go find your uncle, your aunt, or someone, your brother, your cousin or someone to help you work on that. We believe with Dan and his team's expertise, the Gartner Magic Quadrant capabilities, the 6,000 technicians in our store footprint, it gives a great addition to our BizBox platform. We've also partnered with partners across logo design, website creation, digital marketing, legal services, front office support, CRM. And so to be honest with you, the list of opportunities is endless. And so right now, we have 13 different offerings but we're going to continue to expand that. Some of those we'll do ourselves, primarily technical services. Most of those other ones will be working on their rev share model with partners. But we give partners tremendous reach with almost 1,400 stores and the numerous number of customers we already have on the small and medium business perspective. I don't see this as a -- I see this as a complement to our strategy, I think it complements our core. And I think it is disruptive for a what we're known as a retailer, but really a -- we already have over 50%, 60% of our business is already B2B. So this supplements perfectly with what we already have as our core assets, or just expanding to that where we can get a services relationship versus a transactional product relationship. You get that, it's sticky, it's predictable, it's over a long period of time, you hold those relationships. And you grow this relationships with all of the other things as well.

Operator

(Operator Instructions) Your next question comes from Michael Lasser.

Mark David Carden ***UBS Investment Bank, Research Division - Associate Director and Associate Analyst***

This is actually Mark Carden on today for Michael, UBS. So with respect to CompuCom, how did its performance compared to last year's sub-period from both the sales and profitability perspective?

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

I'm -- actually I have Dan Stone, the President of CompuCom in the room. And I'm going to have Dan answer that. Again, I'll talk about '18 real fast. We're excited that we believe CompuCom is going to be flat, which is a pretty big reversal of the business, but I'll let Dan comment for a few minutes then I'll jump in as well at the end. Go ahead, Dan.

Dan Stone ***Office Depot, Inc. - President, CompuCom***

Sure. thank you. From a year-to-year perspective, throughout the year, we were actually driving a strong performance from a top line perspective. We were slightly down, much better improvement than our historicals. From a profitability perspective, we were significantly up. We both held our gross margin as well as reduced our expense structure. A lot of that had to do with the automation capabilities, artificial intelligence that we put into our delivery capability as well as continuing efforts across our entire cost structure. We also finished the year with a strong billing perspective. So we're very optimistic that, that trend will continue into 2018.

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

In fact, Dan, I think you said its strongest billings you've had in a couple of years, correct?

Dan Stone ***Office Depot, Inc. - President, CompuCom***

Yes. Q4 strong -- finished extremely strong and we're very excited about bringing that to market and to delivering 2018.

Mark David Carden ***UBS Investment Bank, Research Division - Associate Director and Associate Analyst***

Great. That's really helpful. And then as a quick follow-up, can you guys provide some more color on the BSD division? Excluding the extra week, it seems like there's some improvement. How is the market now, are you seeing more contract wins now that the Staples disruptions play behind you? Any wins because of CompuCom?

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

Well, there's some great cross-selling opportunities and we've seen some early wins that's we're all happy about on both sides of the business. We did see a 150 basis point improvement sequentially as I said earlier. And we're basically committing '18 to be flat for the year or so. We're saying that's going to continue improve through the year. And we see that the headwinds from the previous Staples acquisition are behind us. And we're very optimistic that by stabilizing that core, I think it's a huge inflection point for the company that CompuCom is flat, so we have $1.1 billion and sticky stable revenue and a lot of EBITDA around that, as well as the BSD team -- business being stabilized is a huge statement that we've strengthened our core business. And obviously, as we said pretty clearly, we got to continuing to our retail transformation and drive to more services-led store experience over a period of time will stabilize the retail business as well. But I'm very, very pleased that we're looking at a positive trend in BSD and that we're going to have a flat year in 2018.

Operator

(Operator Instructions)

Joseph T. Lower ***Office Depot, Inc. - Executive VP & CFO***

This is Joe Lower, why don't I wrap up the call and just providing some perspective on Q1. We do not intend to regularly provide guidance on a quarterly basis. But thought given the guidance coming out this time of the year and where we are in the year, it was helpful to provide some context. So we provided you guidance for the full year in the amount of $10.6 billion. We typically see somewhere between 24% to 20% -- 26% of our total sales actually recognized in Q1. We anticipate this year, Q1 will be at the lower end of that range, as some of the revenue growth initiatives that Gerry discussed, really don't materialize until the second half of the year. And in the operating income, we provided total guidance for the year of $350 million. As a percentage of total, we expect Q1 to be slightly lower as a percent in the 21% to 22% of total range as the investments we are making are generally front-end loaded with the benefits being realized in the second half of the year.

So hopefully that gives you some sense of how we're looking at Q1 at this time. With that, I'll turn it back over to Gerry for his closing comments.

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

I want to thank everyone again for joining us on the call this morning. And I look forward I think we're really excited about the opportunity on our next quarterly conference call as well as our Investor Day in May. We will have our entire new leadership team at that Investor Day. We will walk through a lot more detail the strategy and the initiatives we have underway to transform this company to a services business platform. And we look forward to spending the day with everyone in New York in May. Have a great day. Thank you very much.

Operator

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