Commentary from Office Depot Chairman & CEO, Roland Smith and CFO Steve Hare

2014 Results & Accomplishments and 2015 Critical Priorities

2/24/15

Safe Harbor

This document includes 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 Securities and Exchange Commission ("SEC") including its Annual Report on Form 10-K filed today.

This document also refers to non-GAAP financial measures to describe business performance. The SEC filings, the earnings press release, reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures, as well as 2013 pro forma results for combined Office Depot and OfficeMax, are all available at investor.officedepot.com.

2014 Key Accomplishments

2014 was the first full year of operations for the combined Office Depot/OfficeMax and the company finished the year with a strong fourth quarter. Associates have been doing an excellent job integrating the legacy companies and improving execution to ensure customers' needs are served well. The recently announced agreement for Staples to acquire Office Depot at a significant premium is a testament to the success of our merger integration work to date.

In 2014, we focused on successfully executing our 12 critical priorities, and achieved many significant accomplishments:

- Built a new leadership team, comprised of executives from both legacy companies as well as outside talent;
- Restructured the newly-combined company into a leaner and more effective organization;
- Established a new, combined company high-performance culture that drives employee engagement and embodies the company's five core values and ten guiding principles;
- Exceeded expectations for merger integration synergies:
  - Realized approximately $290 million of synergies during 2014,
  - Increased the total expected annualized run rate of synergies to more than $750 million, including more than $100 million from our retail store portfolio optimization, by the end of 2016,
  - Exited 2014 at a run rate of annualized merger integration synergies of more than $500 million;
- Completed 168 U.S. retail store closures and achieved a store-to-store sales transfer rate of more than 30%;
- Converted the first 51 legacy OfficeMax stores to the Office Depot point-of-sale platform;
- Sold our 51% interest in Grupo OfficeMax, which included 92 OfficeMax-branded retail stores in Mexico, to the former joint venture partners;
- Completed the closure, consolidation, and platform conversion of the first 3 distribution centers and 4 cross dock facilities;
- Consolidated the legacy OfficeMax and Office Depot e-commerce websites to a single co-branded website two quarters ahead of schedule;

- Executed a combined banner, multi-channel back-to-school campaign, which featured a harmonized product assortment, and leveraged a co-branded circular that was rolled out two quarters ahead of schedule;
- Combined our two legacy company customer loyalty programs;
- Completed the initial phase of our Unique Selling Proposition ("USP") work using an analytical approach to develop an understanding of current and prospective business and individual customers, defined the opportunity from these target customer segments, and began testing a variety of USP initiatives;
- Constructed and began implementing a multi-pronged framework for growth;
- Expanded and consolidated advertising and marketing activities to further reach and engage customers, including the selection of a new advertising agency and a new integrated marketing message, "Gear Up For Great";
- Developed a detailed plan and began to consolidate into a single North American IT platform, consisting of more than 80 distinct projects;
- Merged two legacy payroll and benefits systems;
- Finalized a plan to restructure the European operations from a country-based to a channel-based structure and began implementation; and
- Nearly tripled adjusted operating income to $289 million from $99 million pro forma in 2013, significantly increasing profit margins.

<u>Fourth Quarter and Full Year 2014 Financial Review</u>

Note: 2014 adjusted or non-GAAP reporting discussed below excludes results from the Grupo OfficeMax joint venture, which was sold in August 2014. Also, prior year comparisons noted within this commentary are to combined company pro forma results for 2013 rather than to 2013 reported results, because 2013 reported results only include OfficeMax results from the date of the merger, November 5, 2013. The 2013 combined company pro forma results are posted to the company's investor relations website at investor.officedepot.com.

Office Depot's fourth quarter 2014 sales were $3.8 billion, down 5.6% from the prior year quarter on a combined pro forma basis, mostly due to store closings and negative foreign currency translation:

- 1.9 percentage points of the sales decline was driven by planned store closings in the U.S. during the full year 2014; and
- 1.6 percentage points of the decline was driven by the negative impact of foreign currency translation.

Sales across the entire business in the fourth quarter were more profitable than the prior year combined pro forma sales due to a disciplined balance between sales and margin.

The company reported an operating loss of $61 million in the fourth quarter of 2014. Special charges and credits totaled $139 million and were comprised of $90 million in merger-related expenses, $38 million in international restructuring charges, and $11 million in non-cash store and other impairment charges.

Excluding the special items above, adjusted operating income in the fourth quarter of 2014 was $78 million, compared to an adjusted operating loss of $8 million in the prior year combined pro forma. Lower expenses and gross margin improvement in each division, including more than $120 million of merger synergies in the quarter, more than offset the negative flow-through impact of lower sales as well as a net year-over-year increase of more than $20 million in incentive compensation expense in the quarter.

Adjusted net income available to common stockholders in the fourth quarter of 2014, which excludes the after-tax effect of the special items noted above, was $40 million or $0.07 per share.

North American Retail Division (NAR)

Fourth quarter 2014 same store sales in NAR for the combined Office Depot and OfficeMax stores declined 2%, a 1 percentage point improvement from the year-to-date third quarter 2014 decline. The fourth quarter 2014 same store sales decline was driven by lower transaction counts and a slight decline in average order value. Compared to the combined pro forma retail sales in the fourth quarter of 2013, total retail sales for the fourth quarter of 2014 decreased 7%, which included a 5 percentage point impact from 168 U.S. store closures in 2014.

Retail same store sales increased compared to the prior year pro forma period in supplies, furniture, copy and print, and tech services, and declined in computers and peripherals.

NAR operating income was $16 million in the fourth quarter, a $39 million improvement over the prior year combined pro forma. Division operating margin improved by 250 basis points. The negative flow-through impact of lower sales was more than offset by gross margin improvement and lower operating expenses including payroll and advertising.

The 2014 holiday selling season started earlier than in past years and was highly competitive. The company executed well in its first combined Office Depot and OfficeMax holiday program; promotional offers were more targeted, and low-margin broad-based promotions from the prior year were not repeated. These actions significantly improved profitability, but also resulted in reduced sales compared to prior year pro forma.

North American Business Solutions Division (BSD)

BSD is comprised of the Contract channel and the Direct channel. The Contract channel, which makes up the majority of sales in BSD, includes sales to primarily medium-to large-sized businesses and public sector organizations using defined contracts and dedicated sales force support. The majority of the sales in the Contract channel are transacted online. The Direct channel includes online sales primarily to small and medium-sized customers, and also includes catalog orders fulfilled through customer service centers.

Compared to the combined pro forma sales in the fourth quarter of 2013, fourth quarter 2014 sales in BSD were $1.5 billion, a decrease of 1%, entirely due to sales declines in the Canadian Grand & Toy operation, including an $8 million negative impact from currency translation. Canadian sales represent less than 10% of total BSD sales. U.S. Contract sales increased slightly in the fourth quarter led by growth in the public sector, especially K-12 education. In Direct, online sales increased and call center sales decreased, continuing a long-term trend.

BSD gross margin rate increased in the fourth quarter of 2014 compared to combined pro forma results in the prior year quarter, driven largely by merger integration synergies within cost of goods and distribution.

BSD operating income for the fourth quarter of 2014 was $66 million, an increase of $50 million from the prior year quarter combined pro forma. Division operating margin improved by 3 percentage points. Lower payroll and advertising expense, as well as purchasing and supply chain synergies more than offset the negative flow-through impact of lower sales.

International Division

Compared to the combined pro forma sales in the fourth quarter of 2013, International sales in the fourth quarter of 2014 decreased 10% and in constant currencies decreased 4%. The negative sales impact of foreign currency translation was $57 million in the fourth quarter of 2014. In the International Division, approximately 75% of sales are generated in the United Kingdom, France, Germany, Australia, New Zealand, and Sweden.

In constant currencies in the quarter, sales declined in the Contract and Direct channels, and improved slightly in the Retail channel. The Contract channel sales decline was driven by market competition and a challenging European economy. Lower sales in the Direct channel reflect the continued decline in catalog sales, partially offset by online sales increases. In Retail, sales in our European stores grew slightly and sales were flat in South Korea.

International Division operating income was $29 million in the fourth quarter of 2014, which was flat compared to the prior year combined pro forma. Reductions in operating expenses, including payroll and advertising, offset the negative flow-through impact of lower sales, a $2 million negative impact of foreign currency translation, and a slight decline in gross margin rate. Division operating margin improved by 37 basis points.

Balance Sheet & Cash Flow

Office Depot ended 2014 with total liquidity of approximately $2.2 billion, comprised of over $1 billion in cash and $1.1 billion available under the asset based lending facility. Total debt at the end of 2014 was $706 million, excluding $839 million of non-recourse debt related to credit-enhanced timber installment notes.

Free cash flow was positive $33 million for the full-year 2014. Significant cash uses that reduced full-year 2014 free cash flow included approximately $275 million in merger-related cash costs and $43 million in contributions to the legacy pension plans.

2015 Critical Priorities

Our Leadership Team has established critical priorities for 2015 that build on the momentum of our 2014 initiatives, and focus primarily on merger integration, improving the overall customer experience, and European restructuring. These priorities include:

- Continuing to implement merger integration plans and achieve expected synergies:
    - Closing approximately 135 U.S. retail stores in 2015, as part of at least 400 store closures over the 2014-2016 integration period.
    - Implementing a common retail SKU assortment, which will be substantially complete by mid-year 2015.

- Converting the point-of-sale platform in all legacy OfficeMax stores by the end of the second quarter of 2015.
- Rationalizing our supply chain footprint to include closures, relocations, and capacity enhancements in certain distribution facilities; and streamlining all aspects of the supply chain, including moving to a common inventory planning and replenishment system and rationalizing the transportation network.

- Improving the overall retail customer experience through a well-trained staff:
  - Rolling out a best practices playbook focusing on the customer and implementing a national training program for all store associates to drive higher sales conversion rates.
  - Modifying our staffing model to add full time specialists in print and tech services while investing in training to build expertise in these critical areas.
  - Implementing improved performance management tools, and revising the store bonus program.

- Optimizing the approach to pricing and promotions:
  - Defining a comprehensive cross-channel pricing strategy, including dynamic web pricing, that highlights Office Depot's value proposition for customers and drives profitable sales.
  - Improving the effectiveness of marketing vehicles, including increasing the productivity of circulars.
  - Improving store productivity through promotions that drive additional sales volume in the highest customer traffic areas of the store.

- Personalizing our approach to customer marketing:
  - Shifting resources to targeted advertising channels and customizing offers, communicated through various marketing vehicles, including e-mail and online.
  - Growing participation in our newly combined loyalty program and more effectively communicating personalized offers based on the purchasing habits of our target customers.

- Defining and implementing our Unique Selling Proposition, or USP, by identifying and prioritizing the channels and tactics best utilized to win with our targeted customer segments:
  - Continuing to expand our in-market tests.
  - Improving and leveraging our new officedepot.com e-commerce platform, enabled by the transition to a single co-branded website in 2014.
  - Testing ways to attract and better serve small business customers across our channels.
  - Defining the optimal curated product and service offering.
  - Launching a "store of the future" prototype by late summer. This store prototype will integrate a curated assortment and an improved store experience, and will include planogram changes and an improved omni-channel experience. Testing of various aspects of the new prototype is being conducted in multiple stores.

- Moving forward with plans announced last quarter to restructure our European operations, by shifting from a country-based structure to a channel-based structure. We anticipate a total of 1,400 positions will be impacted, including positions that were eliminated in 2014.

Outlook

We expect total company sales in 2015 to be lower than 2014, primarily due to our decision to close certain stores, the negative impact of currency translation, and continued challenging market conditions. Due to the announced agreement to be acquired by Staples, we are withdrawing our previous guidance for 2015 adjusted operating income and free cash flow based on the associated uncertainty with vendors, customers, and employees.

We will continue to make significant progress on realizing merger integration synergies and executing our European restructuring plans:

- We continue to expect to achieve total annual run-rate merger synergies of more than $750 million by the end of 2016, the completion of the integration period. We have made significant progress in the merger integration, and began 2015 with an annualized run rate of more than $500 million in synergies.

- We continue to estimate that $400 million of cash integration costs will be required during the 2014 through 2016 integration period, excluding costs related to optimizing the U.S. retail store portfolio. Nearly $300 million of these expenses were incurred in 2014.

- We continue to expect approximately $200 million in merger integration capital spending over the 2014 through 2016 period, of which $18 million was spent in 2014.

- In 2015, the company expects capital expenditures to be approximately $250 million, including approximately $100 million related to merger integration.

- Depreciation and amortization is expected to be approximately $300 million in 2015.

- The previously announced European restructuring plan is expected to generate approximately $90 million of annual cost reduction benefits by the end of 2016, with most of the benefits realized beginning in 2016. Incremental pre-tax restructuring charges, mainly severance, are expected to be approximately $120 million.

Closing

In our first full year of operations as a combined company post-merger, Office Depot consistently exceeded expectations and successfully executed on all of our 2014 critical priorities. This success was a major catalyst for the offer from Staples to acquire Office Depot at a significant premium. Until the proposed merger with Staples is finalized, we will continue to operate independently. In 2015, we will focus on achieving our critical priorities including merger synergy targets, our European restructuring, and improving customer service across all of our channels.