

Depot. Different !

**Office Depot, Inc.**

Fourth Quarter &  
Full Year 2019  
Financial Results

February 26, 2020

# Safe Harbor Statement

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

During portions of today’s presentation, the company may refer to results which are non-GAAP numbers. A reconciliation of GAAP to non-GAAP measures is available on the Office Depot website at [investor.officedepot.com](http://investor.officedepot.com). The company’s outlook for 2020 is for continuing operations only and includes non-GAAP measures, such as adjusted EBITDA, adjusted operating income, and Free Cash Flow. These measures exclude charges or credits not indicative of core operations, which may include but not be limited to merger integration expenses, restructuring charges, acquisition-related costs, executive transition costs, asset impairments and other significant items that currently cannot be predicted without unreasonable efforts. The exact amount of these charges or credits are not currently determinable but may be significant. Accordingly, the company is unable to provide GAAP measures or equivalent reconciliations from GAAP to non-GAAP for these financial measures.

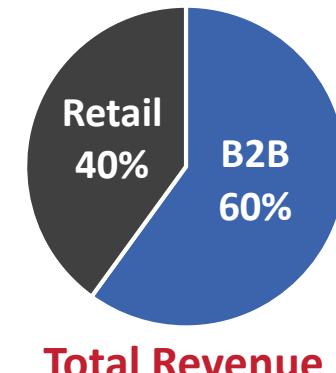


# Gerry Smith

## Chief Executive Officer

# 2019: Progress on Transformation/Improved Profitability

- **Streamlined Operations and Improved Business Model**
  - ✓ Business Acceleration Program (BAP) delivered efficiencies, improving the business model
  - ✓ Improved operating results exceeding targets for year
    - Adjusted operating income<sup>(1)</sup> up 2% in 2019; Up 10% in fourth quarter YOY
    - Adjusted free cash flow<sup>(1)(2)</sup> of \$310 million
- **Transformed B2B Platform for Future Growth**
  - ✓ Refined sales operations and quality; improved value proposition
  - ✓ Launched refocused strategy at CompuCom
  - ✓ Targeted actions to improve profitability
  - ✓ Positioned to drive growth; B2B 60% of total revenue
- **Expanded Product and Services offerings**
  - ✓ Adjacency categories grew; evaluating additional categories
  - ✓ Services grew in BSD and Retail divisions, 8% and 6% respectively YOY
  - ✓ Supply Chain efficiency improvements & new partners
- **Strengthened Balance Sheet and Focused on Shareholder Value**
  - ✓ Smart and balanced capital deployment; dividends, share repurchases, investing in business
  - ✓ Timber Note maturity yielded approximately \$88 million in cash in January 2020
  - ✓ Feasibility review of potential holding company reorganization to be completed by 1Q20



(1) A non-GAAP measure which excludes charges and credits not indicative of core operations and the tax effects of these items, which may include but not be limited to merger integration, restructuring, acquisition costs, asset impairments, and executive transition costs. A reconciliation of GAAP to non-GAAP financial measures can be found at [investor.officedepot.com](http://investor.officedepot.com).

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# Fourth Quarter 2019 Highlights

- **Generated \$2.5 billion in Revenue**
  - ✓ Down 6% versus prior year period
  - ✓ Fewer retail stores and traffic trends
  - ✓ Deliberate profitability improvement measures impacting revenue at CompuCom
- **Drove Improvement in Operating Performance**
  - ✓ GAAP results: operating income of \$74 million; net income from continuing operations of \$55 million; diluted earnings per share of \$0.10
  - ✓ Adjusted EBITDA<sup>(1)</sup> of \$156 million, up 13% YOY
  - ✓ Adjusted operating income<sup>(1)</sup> of \$92 million, up 10% YOY; Adjusted EPS<sup>(1)</sup> of \$0.12, up \$0.03 from prior year period
- **Fundamentals of Transformation Continued to Make Progress**
  - ✓ Building stronger platform to drive growth and profitability
  - ✓ Supply chain efficiency improvements; supply chain as a service, collaboration efforts
  - ✓ Service revenue 16% of total revenue; up 14% in BSD YOY
- **Balance Sheet Continues to Improve**
  - ✓ Adjusted free cash flow of \$135 million <sup>(1)(2)</sup>
  - ✓ Approximately \$1.6 billion of total available liquidity
  - ✓ Repurchased approximately \$29 million in shares during quarter

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# BSD: Platform for Future B2B Growth

## Targeted actions improved operating results

- Operating income up 28% in 4Q vs. prior year
- Operating income up 12% in 2019 vs prior year
- Revenue flat YOY; down 3% 4Q19 vs prior year

## Enhancing platform to pursue growth

- Sales operations and service
- Expanded distribution reach & customer base
- Pipeline growing

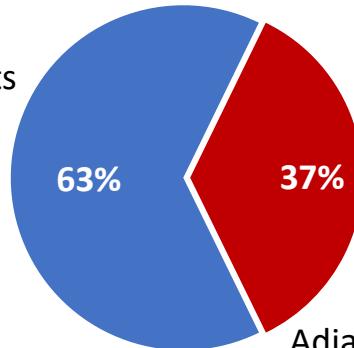
## Expanding value proposition

- Adjacencies 37% of total BSD revenue in quarter
- Cleaning & Breakroom up 8% in 2019 vs. prior year

## 4Q19 Expanding Beyond Traditional Office Products

### Office Products

- Paper
- Ink & Toner
- Supplies



### Adjacencies

- Copy & Print
- Furniture
- Technology
- Cleaning & Breakroom

## Driving Next Phase of Growth

- ✓ Improved sales efficiency; enhanced value proposition; Intelligence tools
- ✓ Expand distribution presence and increase business customer base
- ✓ Expand adjacency categories for greater share of wallet
- ✓ Leverage cross-selling opportunities with CompuCom

# CompuCom: A Leader in the Digital Workforce Industry

8,200  
TOTAL EMPLOYEES

6,800+  
TECHNICIANS  
SUPPORTING  
NORTH AMERICA

82,000+  
CERTIFICATIONS

200+  
ENTERPRISE MANAGED SERVICES  
CLIENTS SPANNING RETAIL, BANKING,  
INSURANCE, HEALTHCARE, AND  
TECHNOLOGY INDUSTRIES.

5 OF TOP 10  
FORTUNE 500

5.1M  
END USERS SUPPORTED

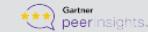
7.5M  
DEVICES SUPPORTED



4.5 OUT OF 5

MANAGED WORKPLACE SERVICES,  
NORTH AMERICA

Rating as of 10.18.2019



2019 LEADER  
GARTNER MAGIC QUADRANT  
MANAGED WORKPLACE SERVICES,  
NORTH AMERICA<sup>1</sup>

16 YEARS  
IN A ROW OF FORMAL  
INDUSTRY RECOGNITION

RANKED #2 OF 21  
END USER DEVICE MANAGED SERVICES  
COMPARED TO 21 COMPANIES IN  
GARTNER CRITICAL CAPABILITIES FOR  
MANAGED WORKPLACE SERVICES,  
NORTH AMERICA, MARCH 2019<sup>2</sup>

1: Gartner "Magic Quadrant for Managed Workplace Services, North America" by Daniel Barros, Mark Ray, January 14, 2019.

2: Gartner "Critical Capabilities for Managed Workplace Services, North America" by Daniel Barros, Mark Ray, March 25, 2019

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# CompuCom: Strategic Component of Services Pivot

## ✓ Refocused Strategy

- Capitalizes on core strengths and competencies
- Vision: *Connecting people, Technology, and the Edge in a Seamless Experience*

## ✓ Improved Operating Performance

- Operating income of \$9 million in 4Q19, up 80% YOY
- BAP cost efficiency measures and other cost reduction efforts
- Revenue impacted by actions to reduce unprofitable sales activities; Product sales timing

## ✓ Invested in New Technology

- Automation; Self-healing networks; Digital support infrastructure

## ✓ Positioning for Opportunities

- End user support; Technology lifecycle management; managed workplace
- Enterprise and SMB

## ✓ Actions

- New leadership – Mick Slattery; Industry veteran
- Refine service portfolio to better support clients
- Accelerate service sales and go-to-market activities
- Increase efficiency through the use of technology and automation
- Aggressively pursuing cross-selling opportunities
- Business Acceleration Program cost savings



# Retail: Improving Customer Experience & Operations



- ✓ Optimizing retail footprint and improving operating performance
- ✓ Higher conversion rates, average order volume and average sales per shopper
- ✓ Same store sales down 4%; Service revenue up 6% for year
- ✓ Buy On-Line Pick-Up in Store (BOPIS) grew 8% for year
- ✓ Operating income up 21% in quarter versus prior year period
- ✓ Loyalty customers continues to grow
- ✓ Expanding service offerings through partnerships (Lenovo; Telos)

# 2020: Investing in Growth and Driving B2B

A Leading B2B Integrated Distribution Company Providing Business Services and Supplies, Products & Technology Solutions

## ✓ Invest in Growth and Drive B2B

- Top line growth in BSD and CompuCom
- BAP savings and Retail optimization helping to fund growth objectives

## ✓ Expand Product and Service offerings

- Drive adjacencies; Grow CompuCom; Capture cross-selling opportunities with BSD; Supply chain as a service

## ✓ Drive Low Cost Business Model

- Continue to execute BAP; Operational improvements; Retail footprint optimization; Cost savings
- Additional fuel to invest in growth

## ✓ Leverage Valuable Asset Base and Extensive Market Reach

- Proven distribution assets; Supply chain; Business customer base and market reach

## ✓ Remain Shareholder Focused

- Balanced capital allocation; Corporate reorganization feasibility study to be completed by 1Q20
- Opportunistic share buy-backs

POSITIONED TO DRIVE SHAREHOLDER VALUE

# Financial Discussion

# Fourth Quarter 2019 Summary

	Fourth Quarter	
(\$ in millions, except per share amounts)	2019	2018
Sales	\$2,508	\$2,670
Operating Income (GAAP)	\$74	\$24
Adjusted Operating Income <sup>(1)</sup>	\$92	\$84
Net Income from Continuing Operations	\$55	\$(14)
Earnings Per Share from Continuing Operations (GAAP)	\$0.10	\$(0.02)
Adjusted Diluted EPS from Continuing Operations <sup>(1)</sup>	\$0.12	\$0.09
Adjusted EBITDA <sup>(1)</sup>	\$156	\$138
Operating Cash Flow from Continuing Operations	\$152	\$61
Free Cash Flow from Continuing Operations <sup>(1)(2)</sup>	\$125	\$(5)
Adjusted Free Cash Flow <sup>(1)</sup>	\$135	\$(5)

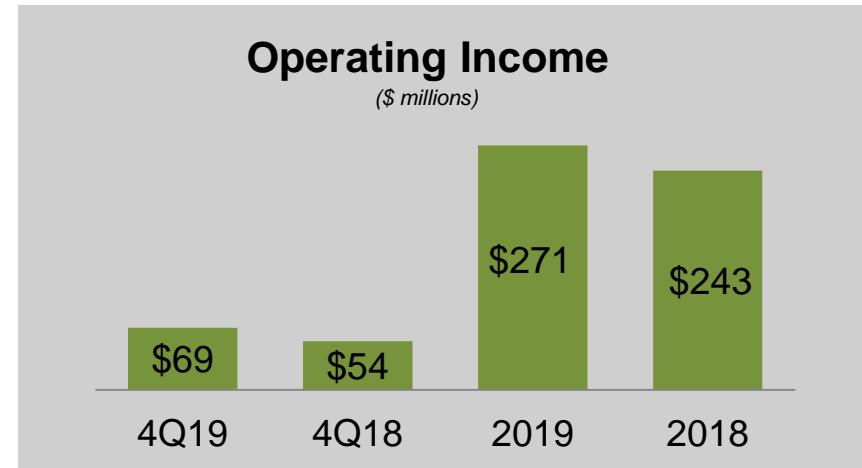
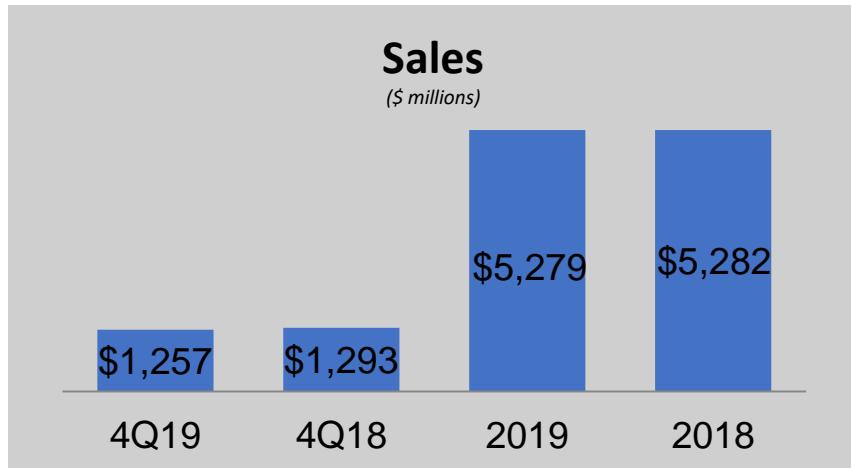
- Total reported Company sales decreased 6% compared to 2018
- Company delivered improved margin performance across all divisions
- Operating Income of \$74 million and Net Income from Continuing Operations of \$55 million
- Adjusted EBITDA<sup>(1)</sup> of \$156 million, versus \$138 million in 4Q18, up 13% YOY
  - ✓ 4Q19 adjusted operating income<sup>(1)</sup> of \$92 million vs. \$84 million in prior year
- 4Q19 Adjusted Free Cash Flow<sup>(1)(2)</sup> of \$135 million versus \$(5) million in 2018
  - ✓ Additional investments in our business platform and in services during the quarter

# Full Year 2019 Summary

	Full Year	
(\$ in millions, except per share amounts)	2019	2018
Sales	\$10,647	\$11,015
Operating Income (GAAP)	\$191	\$254
Adjusted Operating Income <sup>(1)</sup>	\$367	\$360
Net Income from Continuing Operations	\$99	\$99
Earnings Per Share from Continuing Operations (GAAP)	\$0.18	\$0.18
Adjusted Diluted EPS from Continuing Operations <sup>(1)</sup>	\$0.41	\$0.35
Adjusted EBITDA <sup>(1)</sup>	\$590	\$567
Operating Cash Flow from Continuing Operations (GAAP)	\$366	\$616
Free Cash Flow from Continuing Operations <sup>(1)(2)</sup>	\$216	\$429
Adjusted Free Cash Flow <sup>(1)</sup>	\$310	\$429

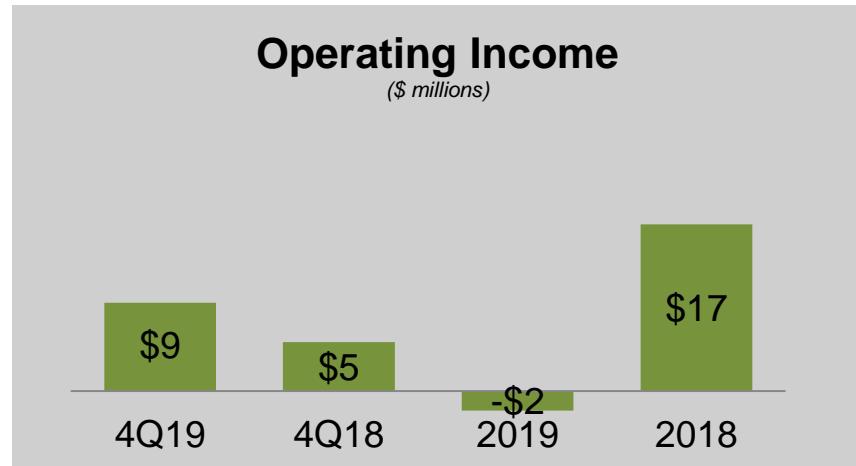
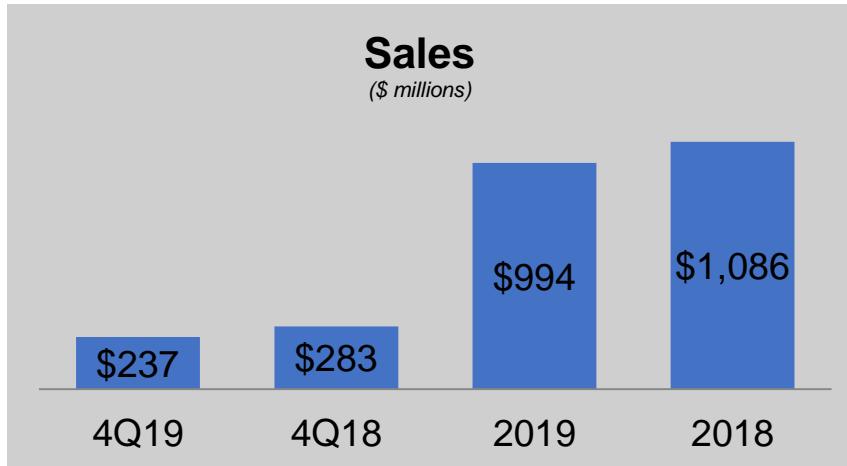
- Total reported sales decreased 3% compared to 2018
  - ✓ BSD Division sales flat compared to 2018
  - ✓ Retail Division sales down 6%; down 4% on same store sales
  - ✓ CompuCom Division sales down 8%; Targeted actions to reduce unprofitable sales activities
  - ✓ Services revenue up 8% and 6% in BSD and Retail Divisions, respectively
- Adjusted EBITDA<sup>(1)</sup> of \$590 million versus \$567 million in 2018, up 4% YOY
  - ✓ Adjusted Operating Income<sup>(1)</sup> of \$367 million versus \$360 million in 2018
- 2019 Adjusted Free Cash Flow <sup>(1)</sup> of \$310 million versus \$429 million in 2018

# Business Solutions Division



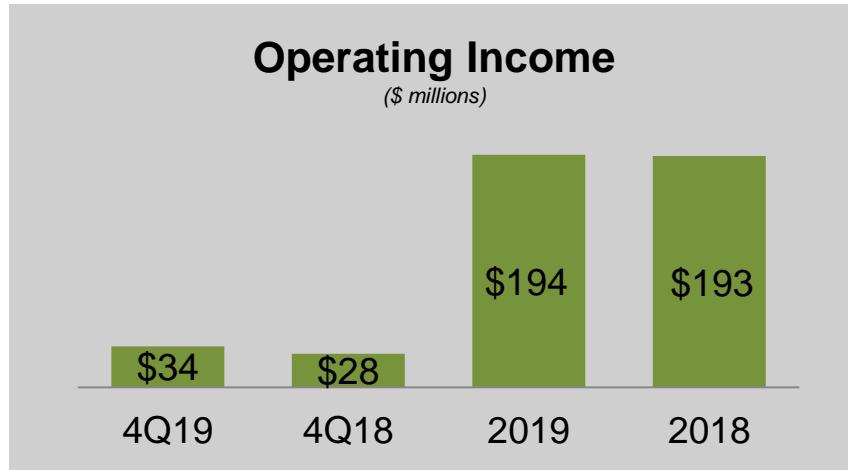
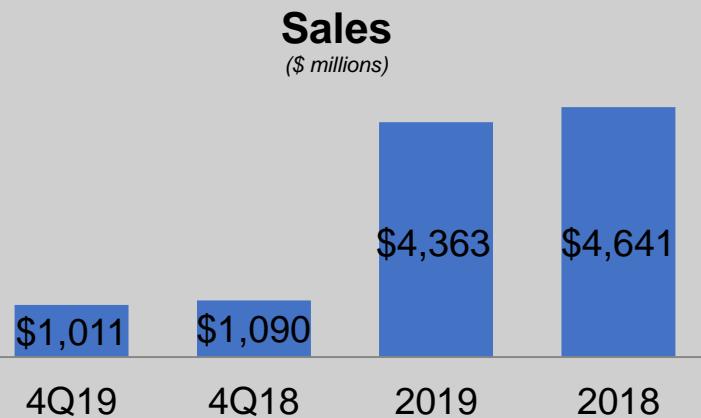
- 4Q19 reported sales decreased 3% versus 4Q18; Flat for the year
  - ✓ Includes positive results from prior customer acquisitions and distribution expansion
  - ✓ Targeted actions taken to improve profitability had negative impact to sales but necessary for future growth
- Growth in adjacency categories
  - ✓ Adjacency categories account for 37% of total BSD revenue for the year
- 4Q19 operating income increased 28% versus 4Q18
  - ✓ Margins improved 130 basis points
  - ✓ Lower SG&A from BAP cost efficiencies
  - ✓ More efficient distribution costs

# CompuCom Division



- 4Q19 reported sales decreased 16% versus 4Q18
  - ✓ Lower product sales and lower services volume
  - ✓ Targeted actions taken to reduce unprofitable sales activities but necessary for future growth
- 4Q19 operating income of \$9 million versus \$5 million in 4Q18
  - ✓ 80% increase versus last year period
  - ✓ BAP cost efficiency measures and other cost reduction efforts
- Executing plan to improve performance
  - ✓ Refocused strategy leveraging core strengths under new leadership
  - ✓ Increased use of automation and technology to improve efficiencies
  - ✓ Pipeline of new business is growing
  - ✓ Aggressively pursuing high growth cross-selling opportunities

# Retail Division



- 4Q19 reported sales declined 7% versus 4Q18; Comparable store sales down 4%
  - ✓ Lower same store sales; fewer retail outlets as compared to the prior year
  - ✓ Higher conversion rates and average order volume; increased loyalty program membership
- Service revenue increased 6% in 2019 versus prior year
- 4Q19 operating income of \$34 million, up 21% versus \$28 million in 4Q18
  - ✓ Higher product gross margins, 80 bps margin improvement as a percentage of sales
  - ✓ Lower SG&A; improved gross margins; improvement in distribution and inventory management costs
  - ✓ Investments in services delivery platform, sales training and customer-oriented initiatives

# Balance Sheet / Cash Flow Highlights\*

<b>Net Cash Position</b>	<ul style="list-style-type: none"><li>• Total available liquidity of approximately \$1.6 billion at end of 4Q19<ul style="list-style-type: none"><li>✓ \$698 million in cash and cash equivalents</li><li>✓ \$920 million available credit under asset-based lending facility</li></ul></li><li>• Total debt of \$681 million, excluding \$735 million of non-recourse debt supported by the associated Timber Notes receivable</li></ul>
<b>Operating Cash Flow</b>	<ul style="list-style-type: none"><li>• Operating cash flow of \$152 million in 4Q19 and included cash outflows related to:<ul style="list-style-type: none"><li>✓ \$11 million in restructuring costs, primarily associated with the BAP</li><li>✓ \$4 million in acquisition and integration-related costs</li></ul></li></ul>
<b>Capital Expenditures &amp; Other</b>	<ul style="list-style-type: none"><li>• Capital expenditures of \$27 million in 4Q19</li><li>• Investments in services platform, distribution network, eCommerce</li><li>• Business Acceleration Program cash expenditures of \$10 million</li></ul>
<b>Adjusted Free Cash Flow*</b>	<ul style="list-style-type: none"><li>• Adjusted Free Cash Flow of \$135 million in 4Q19</li></ul>

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# Balanced Capital Allocation

## Capital Deployment FY 2019

**Stock Repurchases**  
\$40 Million

**Shareholder Dividends**  
\$55 Million

**Debt Pay Down**  
\$98 Million

**Distribution Expansion**  
\$27 Million

Investing for Growth and Returning Capital to Stakeholders

# 2020 Guidance

## FY2020 Guidance

Sales	~\$10.5 billion
Adjusted EBITDA	~\$550 million
Adjusted Operating Income	~\$350 million
Free Cash Flow	~\$300 million

- Reflects positive sales trends in BSD and CompuCom, offset by Retail footprint optimization
- Considers additional growth investments fueled by BAP and Retail footprint optimization
- Assumes stable global sourcing environment

# Q & A