Trade Lane Competition in Times Fluctuating Fuel Prices and Economic Uncertainty

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Office Depot – Business Overview

- Office Depot is a leading global provider of office products and services
- 2007 sales of over $15.5 billion and Adjusted EBITDA\(^1\) of over $800 million
  - Supplies: 63% of sales
  - Technology: 26% of sales
  - Furniture and Other: 11% of Sales
- Multi-channel – stores, catalog, Internet and contract serve business customers of any size, from small home office to Fortune 500 accounts
  - 56% of 2007 Sales were not North American Retail
  - One of the world’s largest e-commerce retailers – $4.9 billion in sales in 2007

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**North American Retail**
(44% of 2007 Sales)
- Over 1,200 stores in U.S. and Canada
- Largest concentration of stores in California, Florida and Texas

**N.A. Business Solutions**
(29% of 2007 Sales)
- Catalog, contract and e-commerce
- Dedicated sales force works with medium sized to Fortune 100 customers
- Orders serviced through 21 distribution centers

**International**
(27% of 2007 Sales)
- Catalog, contract, e-commerce and retail
- Sells to customer directly and through affiliates in 41 countries outside of North America
- 35+ websites and 397 stores

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\(^1\) Non-GAAP numbers. A reconciliation of GAAP to non-GAAP numbers can be found on the Office Depot web site at [www.officedepot.com](http://www.officedepot.com)
Where are Office Depot’s Origin Ports?

Consolidation Ports:
- Yantian (including Shenzhen) and Shanghai

![Pie chart showing distribution of ports: Yantian 62%, Shanghai 26%, Ningbo 6%, Other Ports 6%]
What does the U.S. Supply Chain Network look like?
First Port of Entry  2003-2006

Limited Options:

90% total volume via Los Angeles and Long Beach  CA
Deconsolidated and trucked to warehouses

Inventory management system
   Inability to order by specific facility
   Inability to have multiple consolidation/deconsolidation nodes

Usual issues:
   West coast labor uncertainty
   Truckload/intermodal outbound capacity
   High exposure to one geographic area

STILL ADVANTAGEOUS DUE TO HIGHER MARGIN REALIZED
Port selection driven by multiple, changing factors for each facility

- Port fees
- Fuel
- Tolls and user fees
- Container accessibility
- Consistency

- Port transaction fees
- Compliance
- Accessibility
- Environmental
- Security

- Ability to backhaul
  - Free days available
  - Departure and Arrival

- Volume leverage
  - Service Consistency
    - Rate structure
    - Geographic strengths
    - Fuel

- Ordering system robustness
  - Proximity to port or rail
  - Yard capacity
  - Local Ops

- Minimize cash investment
- Postpone inventory allocation
- Maintain service levels

- Cost
- Lead Time
- Ocean Carrier
- Rail Head
- Regulation
- Optimal Port
- OD Warehouse Network

- Minimize cash investment
- Postpone inventory allocation
- Maintain service levels

Confidential
2008 First Port of Entry

- 7060 FEU’s
- 4800 customs entries
- 48% via ports other than LA and LB
- Active consolidation at origin

![Pie chart showing port distribution]

- Los Angeles
- Long Beach
- Savannah
- New York
- Oakland
- Miami
- Baltimore
- Vancouver
- Seattle
- Jacksonville
2009 and beyond: Integrate operations globally across supply chain

- Corporate Citizenship – Vendor Compliance
- Quality Assurance
- Global Trade Management
  - Customs, Trade Finance, International Logistics
- Customer Service

Integrated global approach to increase Private Brand:
- Sales
- Margin
- Speed to market
- Consumer satisfaction
2009 and Beyond

Drive to SKU level optimization
  Warehouse at source
  Ship container, pallet, master pack, unit

Drive cash flow
  Reduce lead time

Leverage global volume and processes

Comply to all security and trade requirements

Partner with vendors with sustainability strategies
What does the European Supply Chain Network look like?

- Asian Cons. Center
- Far East Suppliers
- European Suppliers
- CDC
- DC’s