



TRANSFORMING OFFICE DEPOT

A PLAN FOR RENEWAL AND REINVIGORATION

August 2, 2013

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- Starboard Value is the largest shareholder of Office Depot, owning approximately 14.6% of the outstanding shares of the Company
 - We have engaged one of the world's leading restructuring and turnaround firms
 - Along with this leading restructuring firm, and our director nominees, we have spent the last nine months developing a detailed plan to significantly improve the operating performance and value of Office Depot
 - We have assembled a team of extremely talented former retail operators who are ready, willing and able to tackle each opportunity in this presentation
 - We have a high degree of confidence that our team can extract substantial operational value that will accrue to Office Depot shareholders

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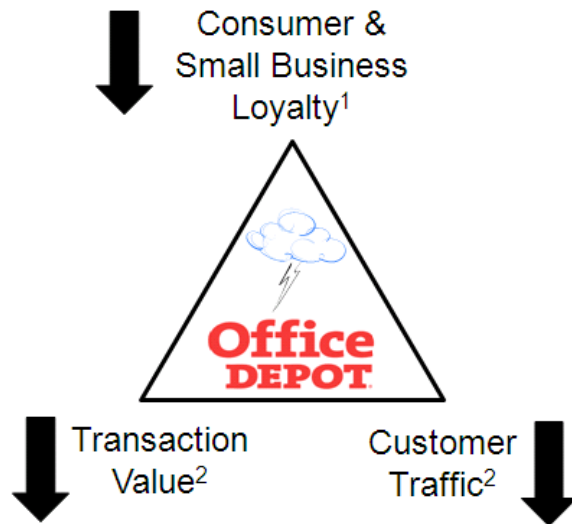
- I. Real change is required at Office Depot
 - A. ODP is losing its customer franchise
 - B. ODP is failing strategically and operationally
 - C. ODP's new real estate strategy is flawed
- II. Business model transformation opportunity
 - A. Efficiency and effectiveness initiatives
 - B. Growth Strategy
 - C. New real estate strategy
- III. 100 day plan

**REAL CHANGE IS
REQUIRED AT OFFICE
DEPOT**

REAL CHANGE IS REQUIRED AT OFFICE DEPOT

The situation is serious - Office Depot is losing its customers, relevancy, and viability as an Office Products and Services retailer

The Problem



The Answer

We have a Winning Plan:

- **Our Plan is Balanced**
 - ✓ Topline Growth
 - ✓ Efficiency & Effectiveness
- **Our Plan is Urgent**
 - ✓ 100 Day Recovery Plan
 - ✓ Improvements in 12 Months
- **Our Plan is Deliberate**
 - ✓ Competitive Repositioning
 - ✓ New Services and Categories
 - ✓ New Investments

Notes:

- 1) Survey results (Net Promoter Score) of 2,014 consumer, small & medium business office supply customers, conducted by an independent survey organization from December 19th through December 26th, 2012 ; SMB: Services- ODP(9%) v. SPLS (30%), Supplies – ODP(15%) v. SPLS(40%), Equipment- ODP(15%) v. SPLS(40%); Consumer: Services – ODP(19%) v. SPLS(43%), Supplies – ODP(37%) v. SPLS(39%), Equipment- ODP(24%) v. SPLS(38%)
- 2) ODP SEC Form 10Q (05/01/2012): "Average order value was slightly negative and customer transaction counts declined approximately 5% compared to the same period last year."
 ODP SEC Form 10Q (8/07/2012): "Average order value was slightly negative in the second quarter and customer transaction counts declined approximately 3% compared to the same period last year."
 ODP SEC Form 10Q (11/06/2012): "Average order value was slightly negative in the third quarter and customer transaction counts declined approximately 4% compared to the same period last year."
 Q4 2012 ODP Earnings Summary (2/20/2013): "Average order value was relatively flat in the fourth quarter and customer transaction counts declined approximately 5% compared to the same period last year."

REAL CHANGE IS REQUIRED AT OFFICE DEPOT

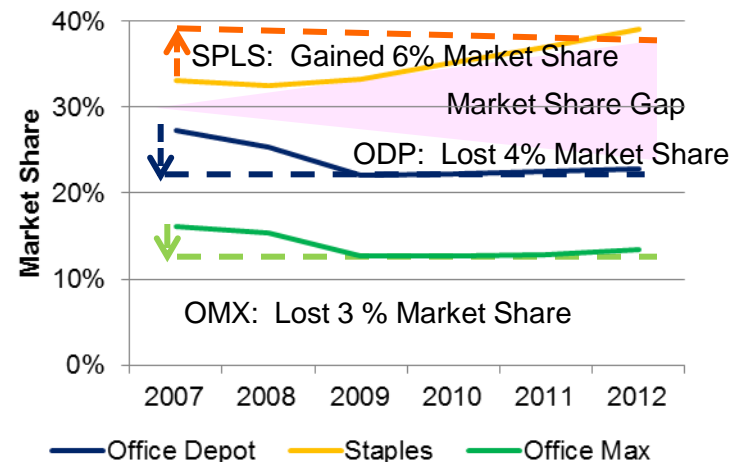
ODP leadership is responsible for destroying shareholder value and continuing to lose market share to its competitors

Headlines

- Destroyed \$9.3B (86%) in enterprise value since 2006
- 7% average decline in comps per year since 2007
- Losing North American market share to Staples: ODP Change in Market Share: -4% vs. Staples +6%
- Trailing Staples by a factor of 2.5x in customer loyalty across Supplies, Equipment and Business Services
- Responsible for significant strategic and operational failures

Market Share

Historical North American Retail Market Share Office Depot vs. Staples and OfficeMax⁽¹⁾

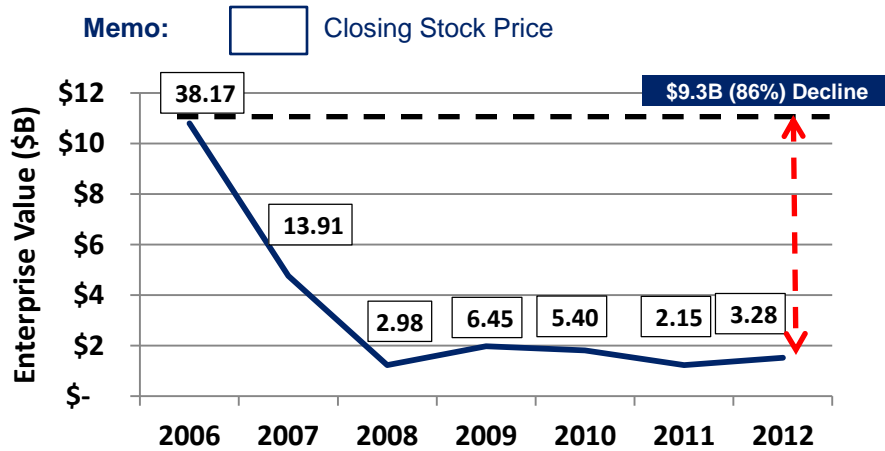


Short and intermediate term headwinds remain strong and will require transformational leadership and innovative solutions

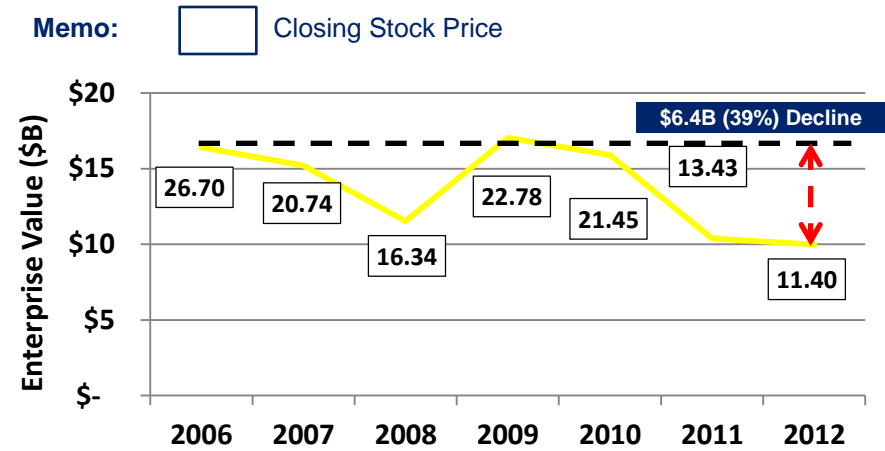
REAL CHANGE IS REQUIRED AT OFFICE DEPOT

Since 2006, ODP has destroyed \$9.3B (86%) in Enterprise value⁽¹⁾ - Deeper and faster than either competitor

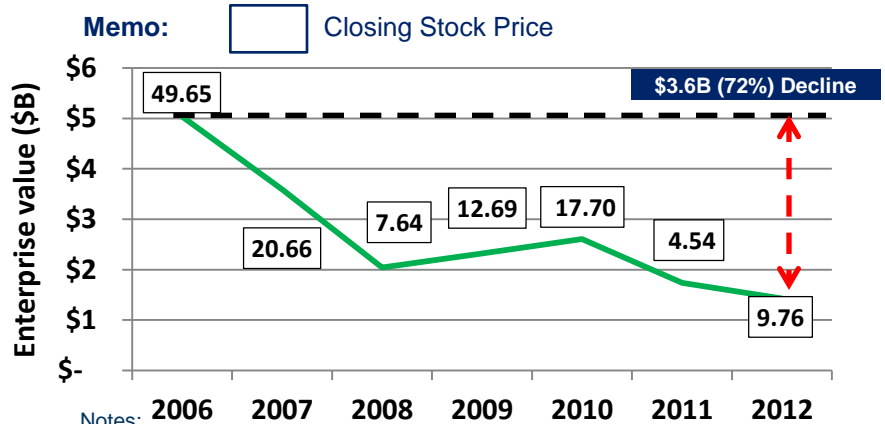
ODP Enterprise Value⁽²⁾ (\$ in billions)



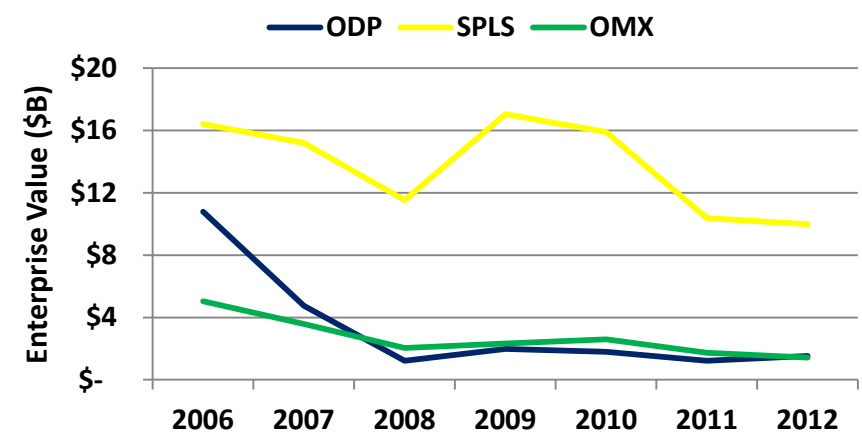
SPLS Enterprise Value⁽²⁾ (\$ in billions)



OMX Enterprise Value⁽²⁾ (\$ in billions)



Enterprise Value⁽²⁾ Comparison (\$ in billions)



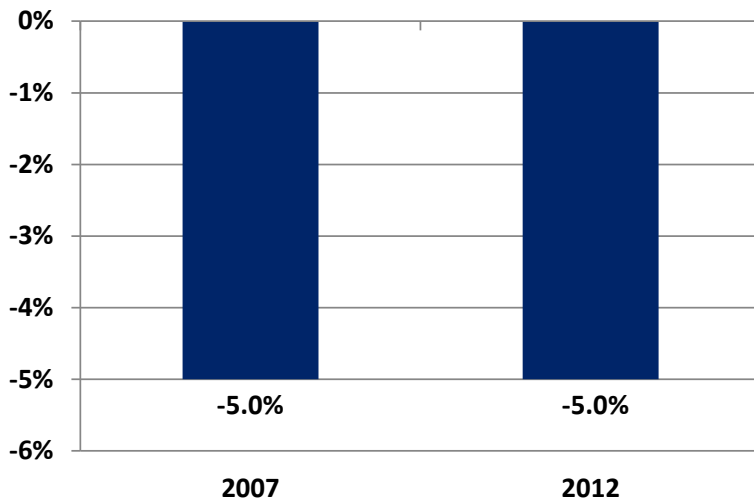
Notes:

- 1) As of 12/31/2012
- 2) Enterprise Value = Market Cap + Debt + Preferred Stock - Cash and Cash Equivalents
- 3) Source: marketcapchart.org, Yahoo Finance and Company 10-K SEC Filings

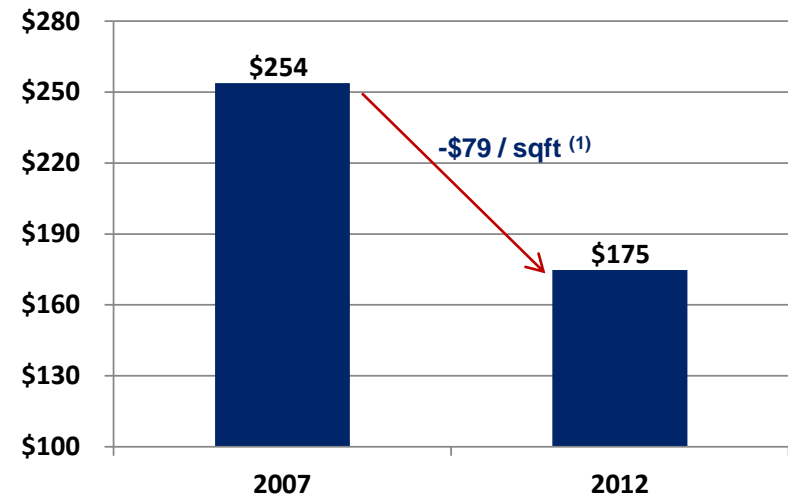
WEAK HISTORICAL OPERATIONAL PERFORMANCE

Since 2007, Office Depot's retail comp sales and sales per square foot have declined dramatically

North American Retail Comp Sales % Change



North American Retail Sales \$ Per Sq Ft ⁽¹⁾



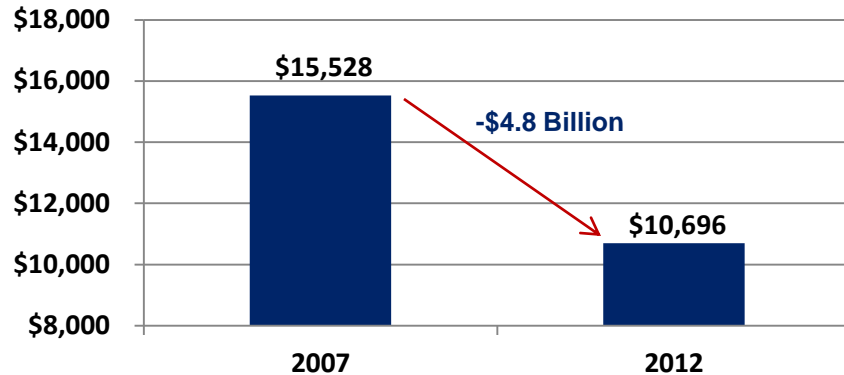
Notes:

- 1) 2007 Sales Per Sq Ft is adjusted for inflation to 2012 Dollars (source: http://www.bls.gov/data/inflation_calculator.htm)
- 2) Source: Company 10-K SEC Filings

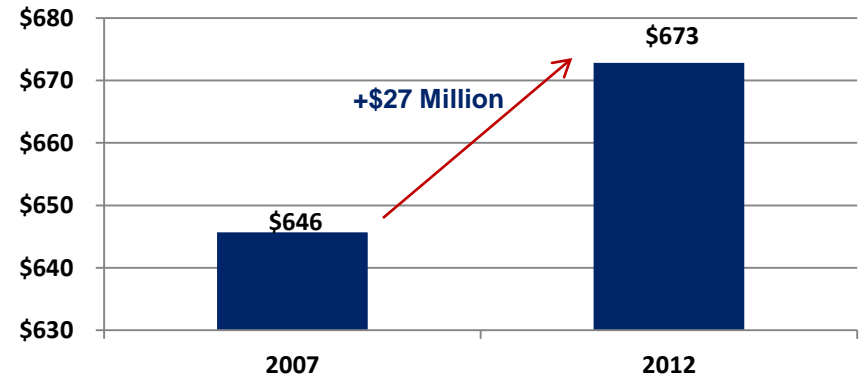
WEAK HISTORICAL FINANCIAL PERFORMANCE

Despite a massive revenue decline of \$4.8 billion from 2007 to 2012, total G&A expense has actually increased, causing G&A expense as a percentage of revenue to increase from 4.2% to 6.3% and Adj. EBITDA margins to decline from 5.3% to 3.1% over this same time period

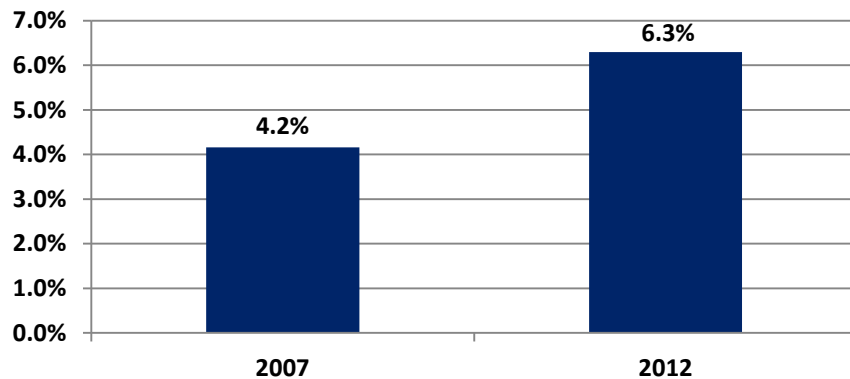
Total Company Revenue (\$ in millions)



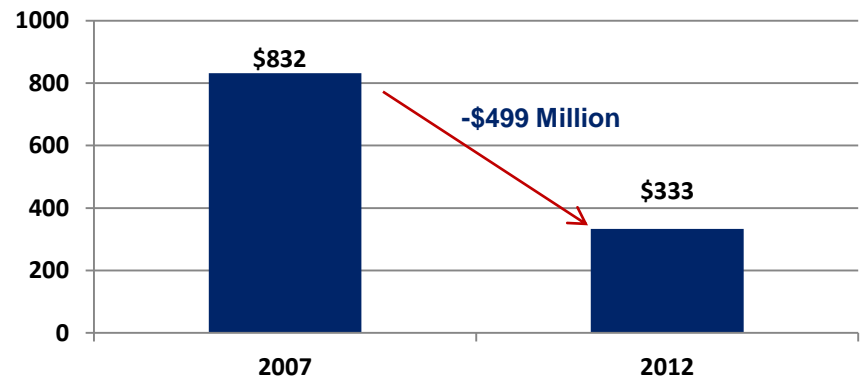
Total Company G&A Expenses⁽¹⁾ (\$ in millions)



Total G&A Expense as % of Revenue



Adjusted EBITDA⁽¹⁾ (\$ in millions)



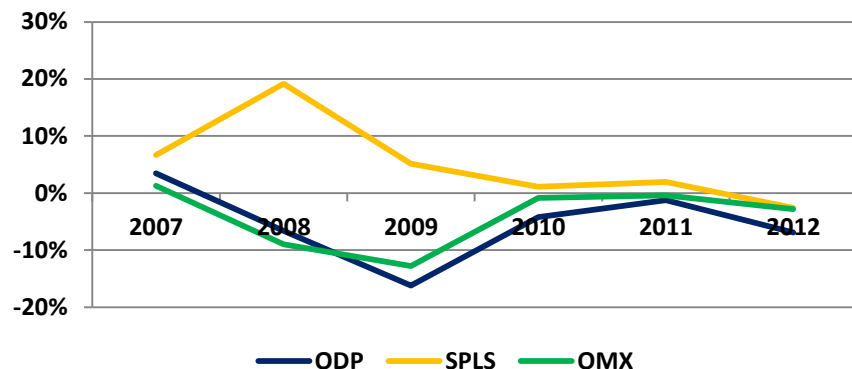
Notes:

1) Non-GAAP figures which exclude charges of \$40M and \$127M for 2007 and 2012, respectively, and Depreciation & Amortization of \$281M and \$203M for 2007 and 2012, respectively

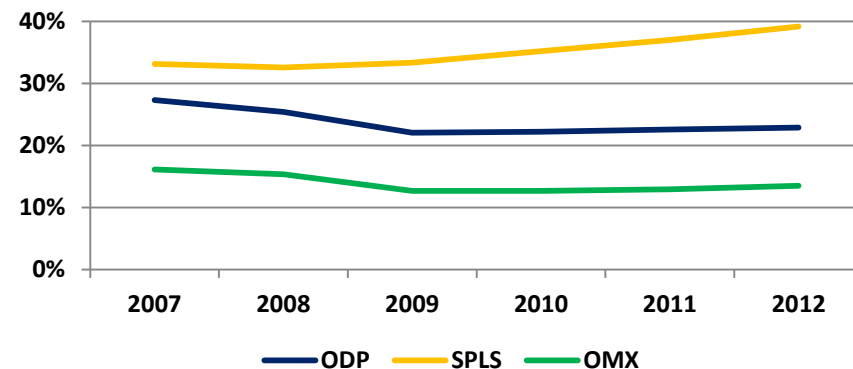
OFFICE DEPOT HAS SIGNIFICANTLY UNDERPERFORMED COMPARED TO PEERS

Office Depot's revenue growth, market share, retail comp sales, and retail sales per square foot have underperformed Staples

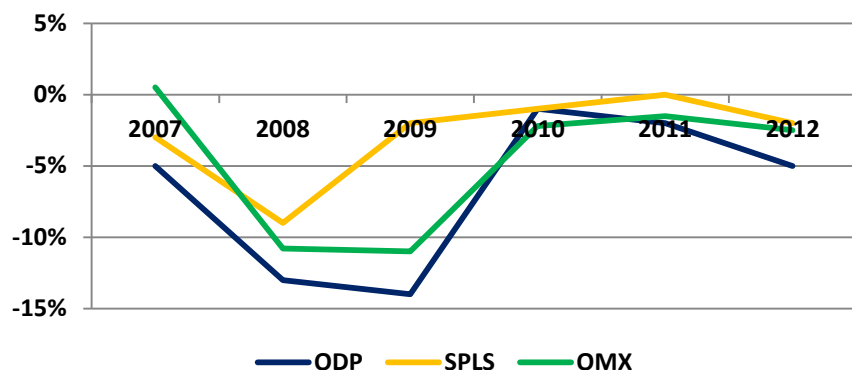
Revenue CAGR



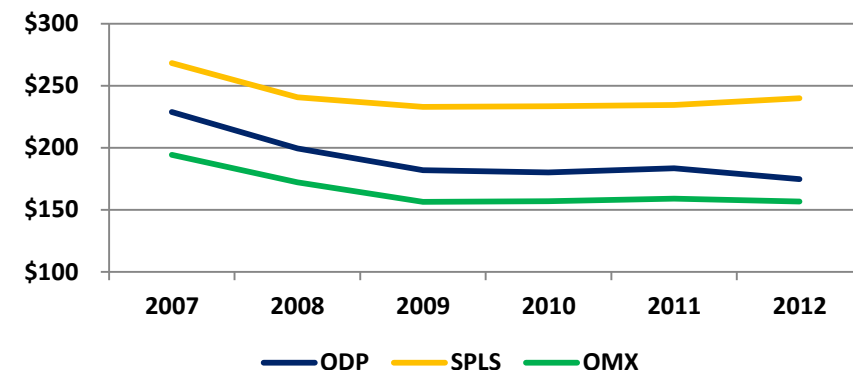
North American Retail Market Share



North American Retail Comp Sales % Change



North American Retail Sales per Square Foot ⁽¹⁾



Notes:

1) Non-inflation adjusted dollars

OFFICE DEPOT HAS SIGNIFICANTLY UNDERPERFORMED COMPARED TO PEERS

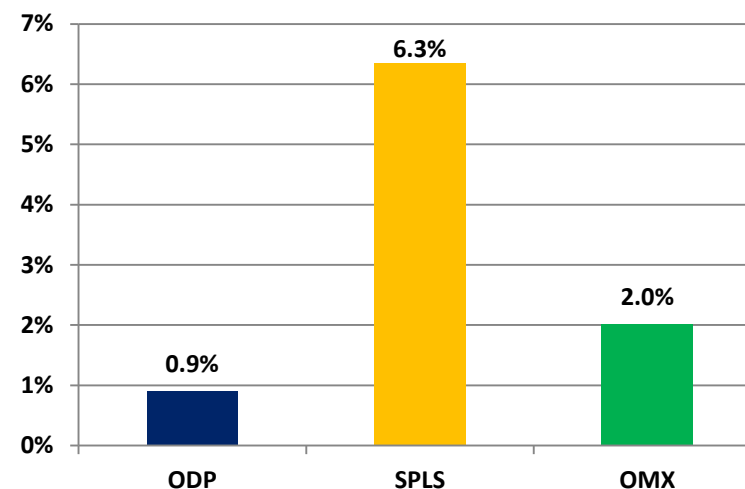
Office Depot's operating margins are also significantly below peer levels due to higher operating expenses, clearly indicating that the Company has not reduced spending levels sufficiently to offset declines in revenues

2012 Financials

(\$ in millions)

	ODP	SPLS	OMX
Revenue	\$ 10,696	\$ 24,381	\$ 6,920
Sales / Sqft	\$175	\$240	\$157
Adj. Operating Profit ⁽¹⁾	\$ 96	\$ 1,548	\$ 139
Operating Margin	0.9%	6.3%	2.0%

2012 Adj. Operating Margins



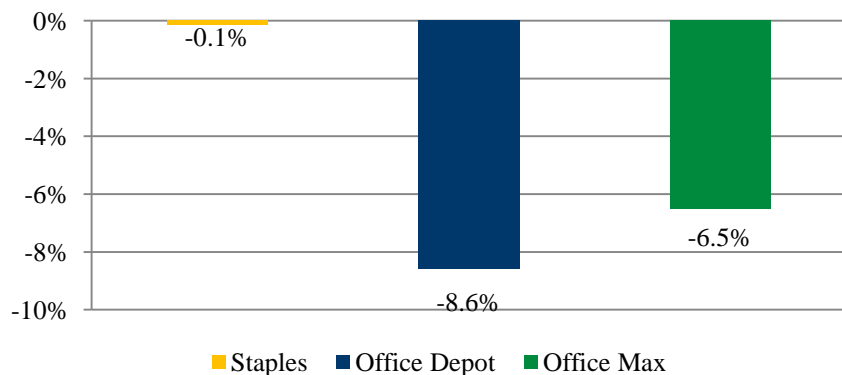
Notes:

1) One time charges for ODP, SPLS and OMX are \$127M, \$1,038M and \$115M, respectively

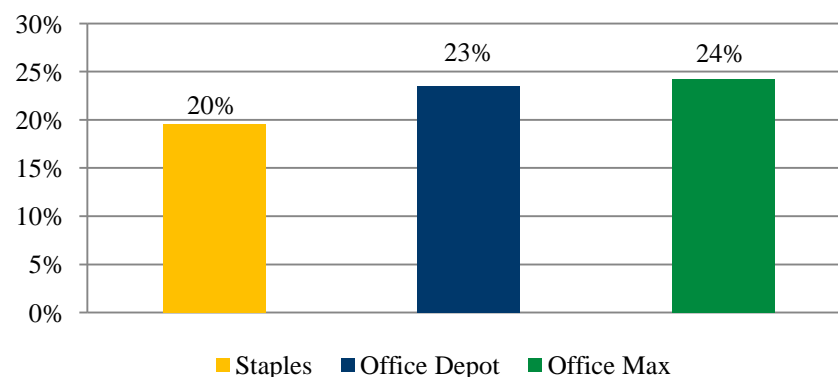
OFFICE DEPOT'S RECENT POOR PERFORMANCE IS PARTICULARLY ALARMING

Recent revenue, same store sales, and operating margins continue to be the worst among OSS peers

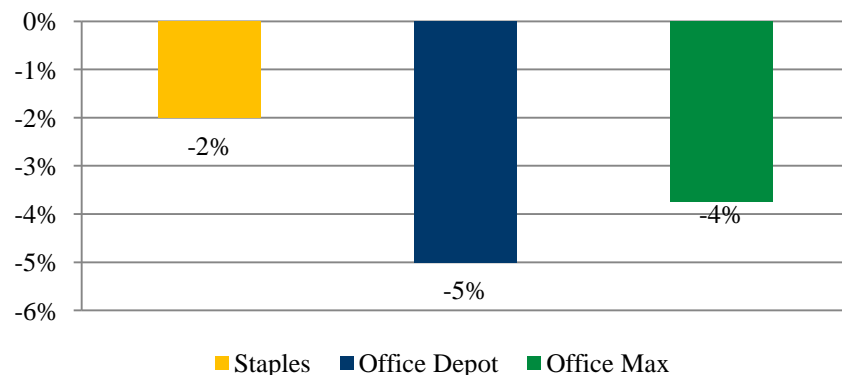
Avg. 4Q12/1Q13 Revenue %Change



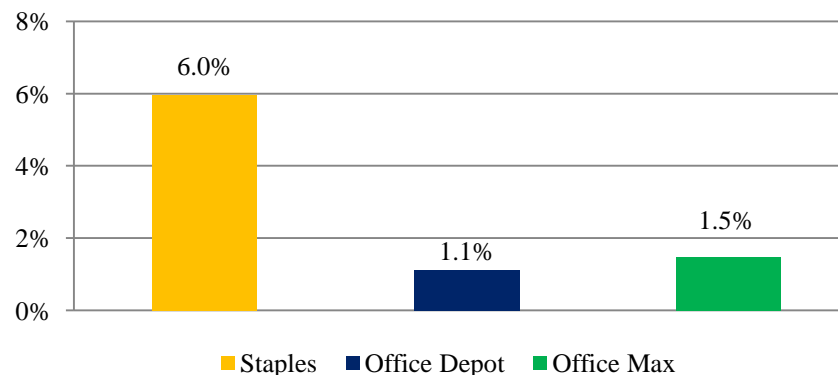
Avg. 4Q12/1Q13 SG&A as %Revenue



Avg. 4Q12/1Q13 Comp Store Sales %Change



Avg. 4Q12/1Q13 Adjusted Op. Profit as %Revenue⁽¹⁾



Notes:

- 1) Adjusted Op. Profit as reported in each company's 10-Q SEC filings and reconciliation of non-GAAP financial measures
- 2) Source: Companies' 10-K and 10-Q SEC filings

Conclusions...

- The current leadership team is not capable of producing the transformational change required to position them for omni-channel growth in the future
- The company will require radical action to stop losing customers, reverse basket declines, and recover market share
- Despite modest improvements in recent years, the existing cost structure is not sustainable

The situation is serious...The time for change is now

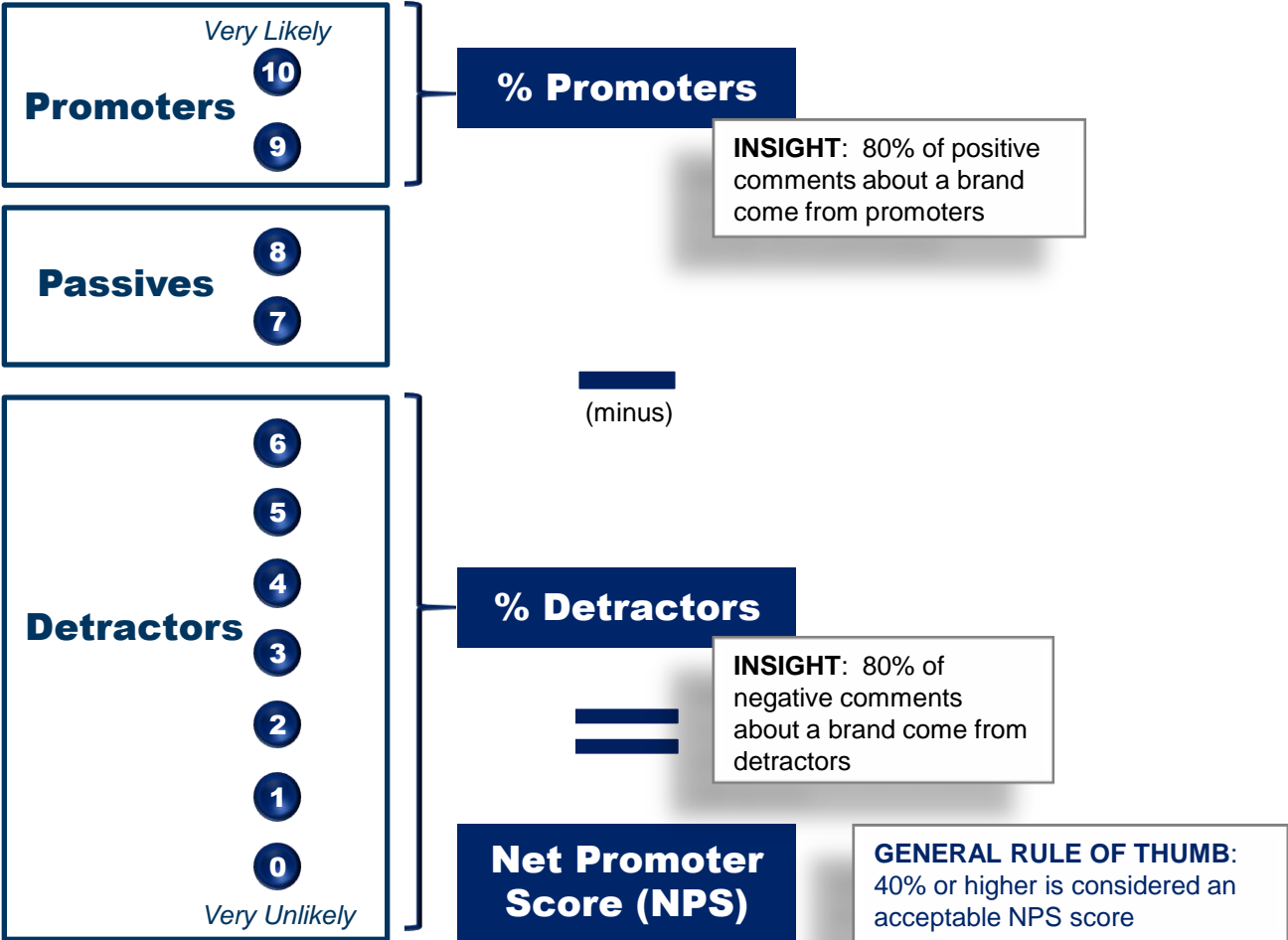
ODP IS LOSING ITS CUSTOMER FRANCHISE

CUSTOMER LOYALTY CAN BE MEASURED BY THE NET PROMOTER SCORE (NPS)

The NPS is a standard retail industry measure used to determine a customers' loyalty that can provide insight into the customer experience and how likely that customer is to both come back to the store / brand as well as recommend the store / brand to someone else

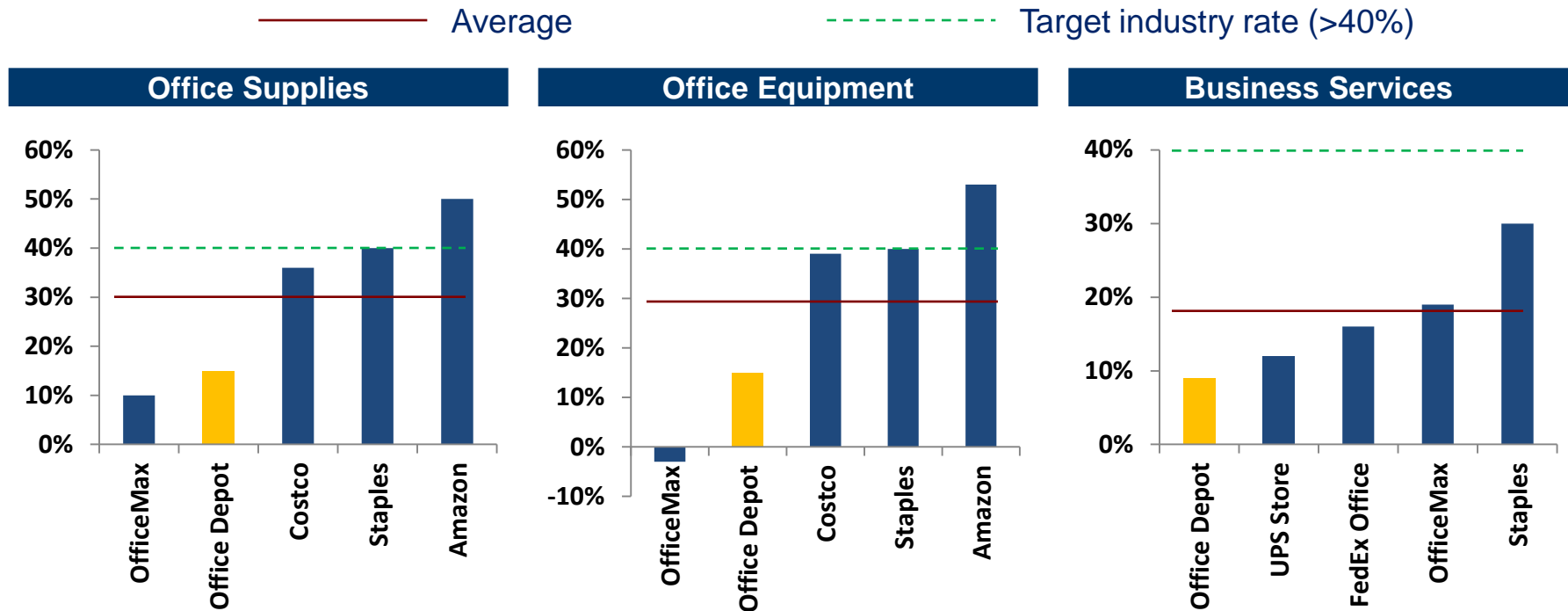
In order to gauge Office Depot's NPS, we conducted an independent survey of over 2,000 consumer and SMB office supply customers

We asked the following Question: How likely are you to recommend [store brand] to a friend or colleague?



ODP'S SMALL BUSINESS CUSTOMER LOYALTY IS POOR

Office Depot has fewer loyal small business customers than its competitors across its three key categories, Office Supplies, Office Equipment, and Business Services, based on its Net Promoter Scores (NPS)⁽¹⁾, an industry standard metric for loyalty comparisons



SMB customers are approximately two-thirds less loyal to Office Depot than established competitor Staples and emerging competitors Costco and Amazon when shopping for Office Supplies

A similar SMB customer loyalty gap exists between Office Depot and leading competitors – Costco, Staples, and Amazon – in Office Equipment

SMB customer loyalty is lowest in Business Services, where Office Depot ranks lowest and trails stronger peers by either a 2:1 or even 3:1 margin

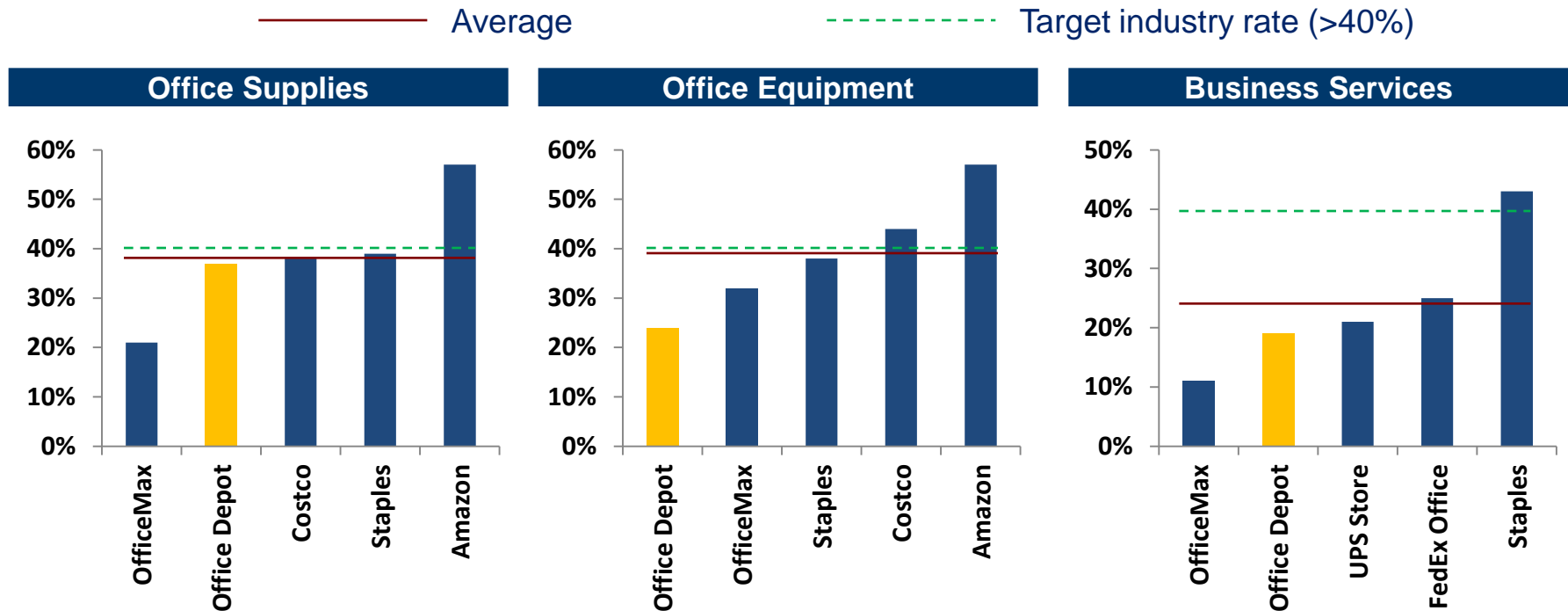
Importantly, Office Depot trails the most in what should be the highest profit margin category

Notes:

- 1) NPS survey results of 2,014 consumer, small and medium-sized business office supply customers conducted by an independent survey organization from December 19, 2012, to December 26, 2012

ODP'S CONSUMER LOYALTY IS BELOW AVERAGE

Among consumers, loyalty (as measured by Net Promoter Score⁽¹⁾) to Office Depot is comparable to its peers in Office Supplies, but it is significantly lower in Office Equipment and Business Services



Consumer loyalty to Office Depot is average in Office Supplies, an area where consumers generally view the sector more favorably than SMB customers

Office Depot ranks last in consumer loyalty in Office Equipment, well below direct peers, Staples and OfficeMax, and even further below industry leaders, Amazon and Costco

Staples dominates consumer loyalty in business services, with an NPS score more than two times higher than Office Depot's

Office Depot generates higher NPS scores among consumers (although still at or near the bottom and well below the target rate), a customer that is generally less profitable and less recurring than SMB customers

Notes:

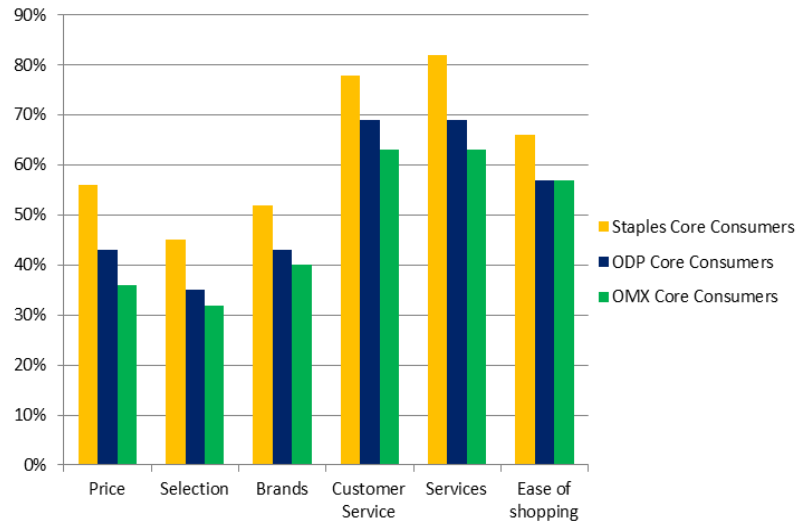
1) NPS survey results of 2,014 consumer, small and medium-sized business office supply customers conducted by an independent survey organization from December 19, 2012, to December 26, 2012

ODP IS LOSING ITS CUSTOMER FRANCHISE

ODP's most loyal customers are less loyal than the competition's. The loyalty advantage enjoyed by Staples manifests itself in "customer stickiness," making Staples customers more intensely loyal to Staples than loyal ODP and OMX customers are to their brands

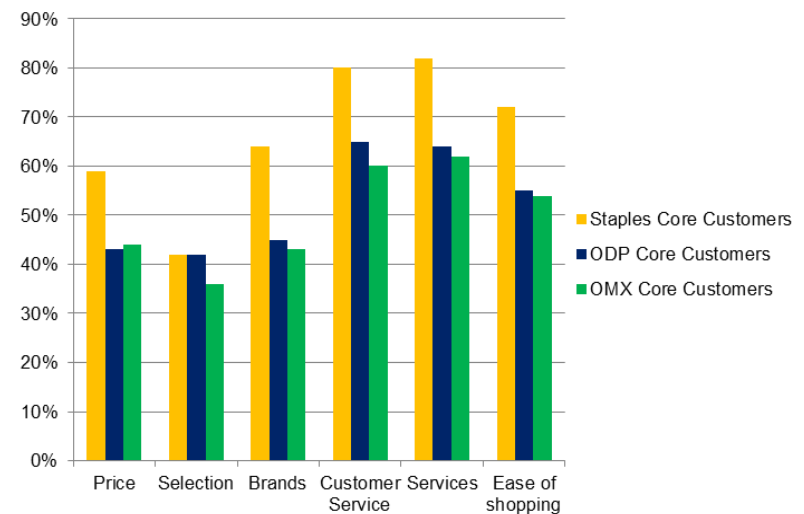
Percent of #1 Ranking by Each Store Brand's Loyal Customers

Consumer



Staples "loyalty advantage," e.g., core consumers who rank their retailer as number one versus other retailers, is statistically significant across all key dimensions making it unlikely that core Staples consumers will ever switch to ODP or OMX

Small and Medium Business (SMB)



With virtually no statistically significant difference between ODP and OMX across five of six key competitive dimensions, the proposed merger of ODP and OMX is unlikely to attract Staples SMB customers

Notes:

1) Source: Survey Results. Percentage of core customers who ranked their primary office provider as #1 in each of 6 dimensions

ODP IS LOSING ITS CUSTOMER FRANCHISE

For several years, Office Depot's comparable store sales have continuously declined, despite management's repeated optimistic statements about improvement initiatives in the North American Retail Division (NAR)

Key Retail Metrics⁽¹⁾⁽²⁾

		2007	2008	2009	2010	2011	2012
ODP	Customer Trans. Counts	↓	–	↓	↓	↓	↓
	Average Order Value	↑	–	↓	↓	↓	↓
	Comp. Store Sales	-5%	-13%	-14%	-1%	-2%	-5%
SPLS	Customer Trans. Counts	–	–	↑	–	↓	↓
	Average Order Value	–	–	↓	↓	↑	–
	Comp. Store Sales	-3%	-9%	-2%	-1%	0%	-2%
OMX	Customer Trans. Counts	–	↓	↓	↓	↓	↓
	Average Order Value	–	↓	↓	↑	↑	↑
	Comp. Store Sales	1%	-11%	-11%	-2%	-2%	-3%

ODP Presentation Transcripts ⁽²⁾

"I'm really excited about these initiatives and ready for customers to return to our stores and be delighted by the service they receive and the product offerings available in 2012 and beyond"

- Kevin Peters, former President of ODP NAR, during 2011 Q4 Earnings Call

"...while we run a good retail operation, it's clear to me that we can get better. To raise the bar, we're targeting our efforts and resources in 2011 on a more narrowly defined set of initiatives that will improve the customer shopping experience and enhance our profitability"

- Kevin Peters, former President of ODP NAR, during 2010 Q4 Earnings Call

"In North American retail we continue to focus on providing innovative products, services, and solutions to both our business customers and consumers, while continuing to manage our costs. These initiatives will position us well as the economy recovers."

- Chuck Rubin, former President of ODP NAR, during 2009 Q4 Earnings Call

Notes:

1) Source: Company Filings

2) Source: Seeking Alpha ODP Conference Call Transcripts

Conclusions...

- In a segment with already low customer loyalty, Staples dominates Office Depot across the board
- While most all of Office Depot's loyalty scores are far below both target levels and its competitors levels, Office Depot's SMB loyalty lags the most, clearly suggesting that the Company is not targeting the highly profitable SMB's effectively
- In addition to Staples, emerging players (Costco, Amazon, Walmart) will continue to reduce ODP's market share if the Company continues on its current course
- Customers are cross-shopping all channels, and ODP needs to re-engage both the SMB's and consumer to increase frequency, conversion, and unit volume

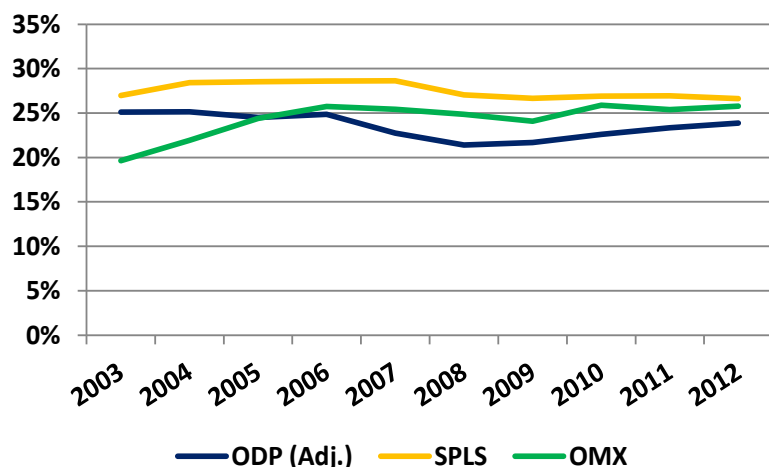
To reverse ODP's customer attrition, the Company will need a much deeper understanding of the customer and develop much more compelling value propositions

ODP IS FAILING STRATEGICALLY AND OPERATIONALLY

ODP HAS POORLY MANAGED GROSS MARGINS ACROSS SEVERAL DIMENSIONS

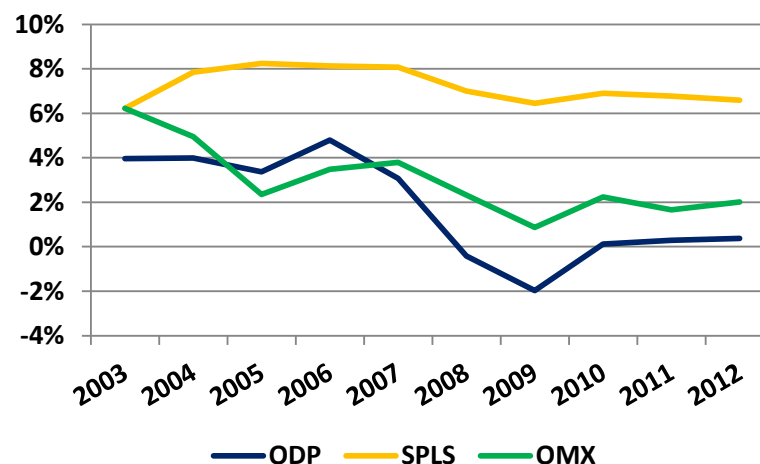
ODP has consistently under performed its competitors in recent years in gross margin and operating profitability

Gross Margin %



Between 2002 and 2005, ODP had better gross margin ⁽¹⁾ than OMX. However since 2006, ODP's comparable gross margin has lagged both of its competitors

Operating Profit %



ODP's lagging margin productivity combined with a non-scalable and recalcitrant SG&A platform has resulted in consistently inferior financial performance to peers

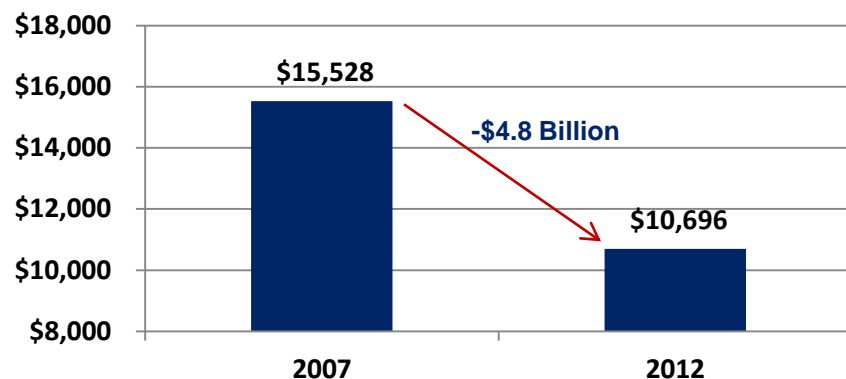
Notes:

- 1) ODP's gross margin includes distribution cost, to make it comparable to those of SPLS and OMX. Distribution costs for 2007 and 2011 are provided in the Nov 2011 Investor Presentation, distribution cost for other years are assumed to be at similar level in terms of % of revenue
- 2) Source: Company 10-K SEC Filings, GAAP basis

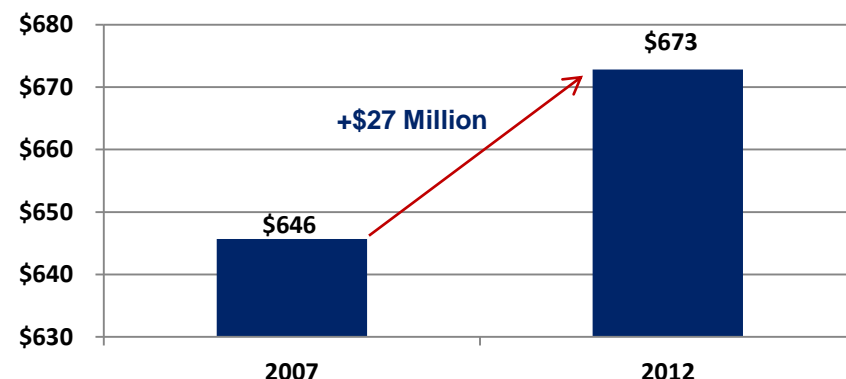
ODP'S G&A EXPENSES ARE BLOATED

From 2007 to 2012, Office Depot's revenue declined \$4.8 billion, yet G&A expenses actually increased \$27 million over the same time period. As a result, total G&A expenses increased from 4.2% of revenue in 2007 to 6.3% of revenue in 2012, and G&A expenses per store increased from \$471 to \$545 over the same time period⁽¹⁾

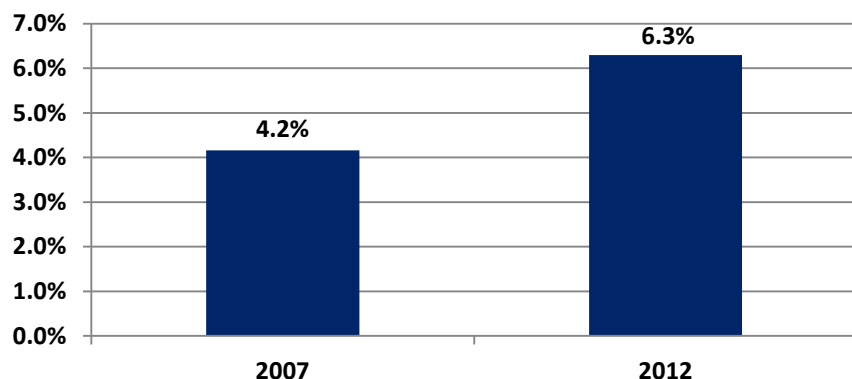
Revenue (\$ in millions)



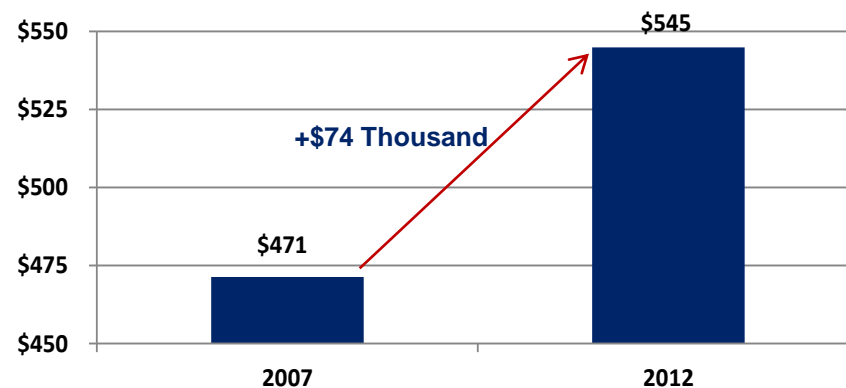
G&A Expenses (\$ in millions)



G&A Expenses as a % of Revenue



G&A Expenses per Store (\$ in thousands)



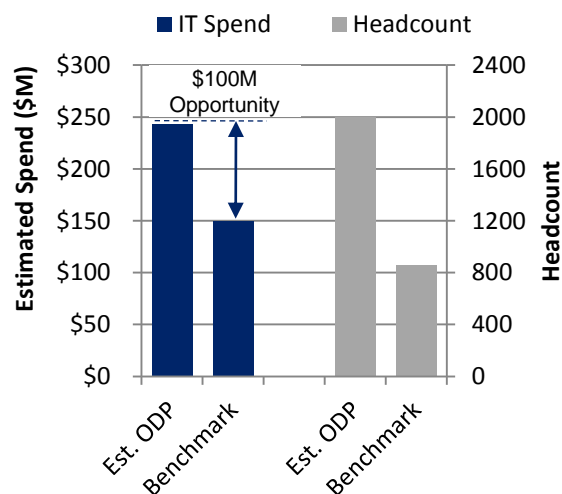
Notes:

1) Source: Company 10-K SEC Filings, GAAP basis

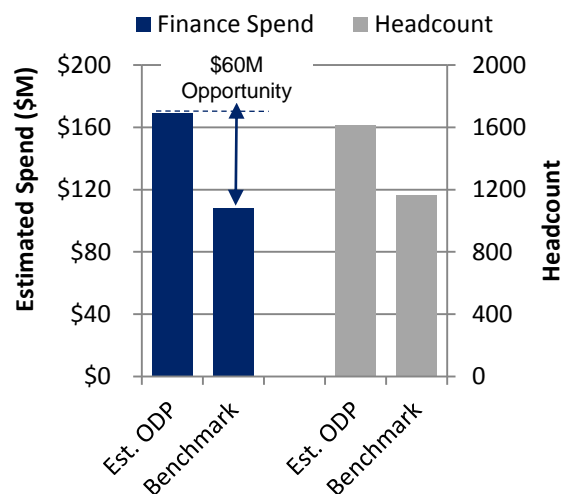
ODP'S G&A EXPENSES ARE BLOATED

Based on our research, we believe that the Company's G&A expenses are bloated across several categories, including Information Technology, Finance, and Merchandising, and are significantly higher than "median" benchmark performance for global retailers

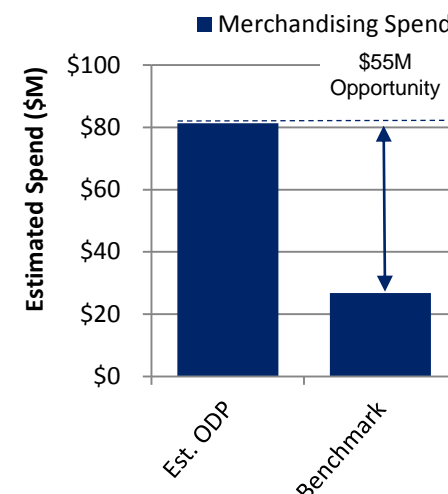
Information Technology



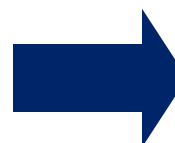
Finance



Merchandising



Compared to industry benchmarks, ODP is spending an additional \$215 million on G&A



Previous opportunities	\$ 0 million
+ G&A opportunity	\$215 million
Cumulative opportunity	\$215 million

ODP'S ADVERTISING EXPENSES ARE EXCESSIVE AND INEFFICIENT

Office Depot's advertising expenses are substantially higher as a percentage of revenue than their peers

In 2012, Office Depot spent \$372 million, or 3.5% of revenue, on advertising expenses, versus Staples, which spent \$534 million, or 2.2% of revenue, and OfficeMax, which spent \$212 million, or 3.1% of revenue

Advertising Expenses v. Direct Peers

(\$ in millions)

	ODP	SPLS	OMX
Total 2012 Revenue	\$ 10,696	\$ 24,381	\$ 6,920
Total 2012 Advertising Expenses ⁽¹⁾	372	534	212
% of Total Revenue	3.5%	2.2%	3.1%

Given Office Depot's significantly larger scale than OfficeMax, we question why the Company is spending a higher percentage of revenue on advertising

Notes:

1) \$30 million advertising expenditure on NASCAR is excluded from ODP's 2012 advertising expenses

ODP'S ADVERTISING EXPENSES ARE EXCESSIVE AND INEFFICIENT

Furthermore, the mix of Office Depot's advertising expenditures is inefficient

- We believe that the vast majority of Office Depot's advertising dollars are spent on expensive, low ROI channels including television and print (including catalog)
- Furthermore, Office Depot has historically spent approximately \$30 million on NASCAR advertising alone
 - NASCAR audiences are male-dominated, while ODP's core customers are predominantly female
 - Our research indicates that this is extremely expensive and low ROI advertising, particularly given that it does not address Office Depot's core female customer

Advertising Expense Mix vs. Global Retail Benchmark ⁽¹⁾

	ODP (Estimated Mix)	Benchmark
TV	80 ~ 90%	40%
Print		15 ~ 20%
Radio	10 ~ 20%	10%
Online / Mobile / Social		25%
Other		5 ~ 10%
TOTAL	100%	100%

Notes:

1) Representative benchmark for global, multi-channel retail advertising mix

ODP'S ADVERTISING EXPENSES ARE EXCESSIVE AND INEFFICIENT

Across all three of its business segments, we estimate that Office Depot's advertising expense-to-revenue ratios are also significantly higher than industry benchmarks

Advertising Expenses Opportunities (\$ in thousands)				
2012 ODP (\$000)	NAR	BSD	INT	Total ⁽³⁾
Sales	\$4,457,826	\$3,214,915	\$3,022,911	\$10,695,652
Advertising Spend ⁽¹⁾	\$151,900	\$144,700	\$105,800	\$402,400
Less: NASCAR	(\$15,000)	(\$15,000)	\$0	(\$30,000)
Advertising as % Sales (adjusted)	3.1%	4.0%	3.5%	3.5%
Benchmark (Median) ⁽²⁾	2.5-2.7%	2.5-3.0%	2.0-2.5%	2.0-3.0%
Opportunities (\$000):				
Revised Advertising Spend	\$121,920	\$111,675	\$73,805	\$307,400
Revised Advertising as % of Sales	2.7%	3.5%	2.4%	2.9%
Total				\$95,000

Compared to industry benchmarks, ODP is spending an additional \$95 million on advertising



Previous opportunities	\$215 million
+ Advertising opportunity	\$ 95 million
Cumulative opportunity	\$310 million

Notes:

- 1) Divisional allocation is estimated
- 2) Median performance for global retail >\$10B in revenue
- 3) Source: Company 10-K SEC filings and Investor Presentation from November, 2012 (for spending on NASCAR)

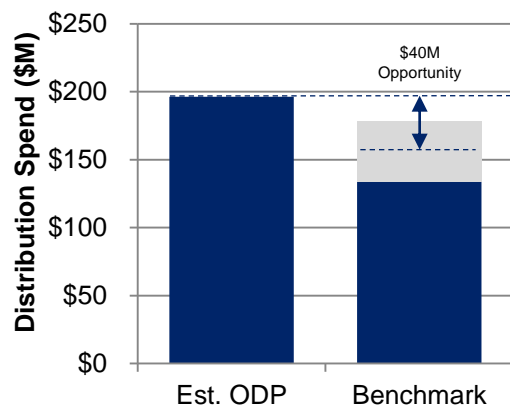
ODP'S DISTRIBUTION EXPENSES ARE WELL ABOVE PEER LEVELS

ODP has an opportunity to improve profitability by implementing key actions to achieve “median” benchmark performance for Distribution expense

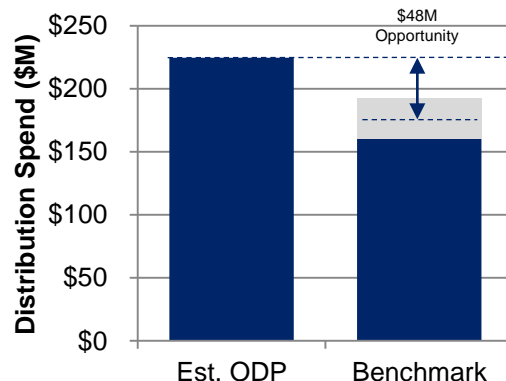
ODP's distribution and warehouse network is less efficient than peers due to:

- Reliance on expensive third party arrangements for out-bound delivery and direct import*
- Poorly thought-out and expensive International distribution network*
- Maintaining the same physical network footprint (since 2010) despite declining sales*

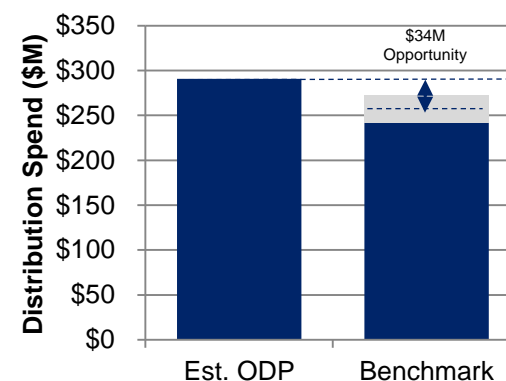
North American Retail



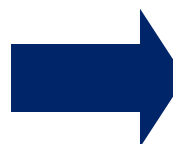
Business Solution Division



International



Compared to industry benchmarks, ODP is spending an additional \$122 million on distribution






Previous opportunities	\$310 million
+ Distribution opportunity	\$122 million
Cumulative opportunity	\$432 million

MANAGEMENT HAS FAILED TO IMPLEMENT EFFECTIVE SKU RATIONALIZATION

ODP is over-assorted in stores and under-assorted online

- With approximately 10,000 SKUs per store, Office Depot is carrying more SKUs in its stores relative to Staples at approximately 7,000 SKUs, resulting in slower inventory turns, excessive inventory investment and inefficient labor deployment
- In contrast, ODP is carrying fewer SKUs online than both competitors, resulting in a weaker ability to support its customer's need for "deep catalog" items, and an inability for the store to recommend an omni-channel solution when items are not available in the store

Estimated SKU Count	Stores ⁽¹⁾	Online ⁽²⁾
	10,000	72,000
	7,000	100,000+
	11,000	80,000 to 100,000

- ODP should reduce its in-store SKU count by improving its line logic, providing a "good/better/best" product assortment, consolidate its supplier base to reallocate open-to-buy to preferred vendors, and realign its private label strategy
- ODP should assort a deep online catalog through direct sourcing, supplier network, and a new marketplace platform to drive average order value to competitive levels

Notes:

1) Source: Company 10-K SEC filings, presentation to investors, and internet research

2) Source: eDataSource, March 20, 2012, and internet research

POTENTIAL SKU AND SUPPLIER COUNT OPPORTUNITY

By rationalizing its excessive SKU count and supply base, Office Depot has an opportunity to improve profitability by \$33 million

SKU Count Opportunity (\$ in thousands)

	NAR	BSD	Total
2012 Revenue ⁽¹⁾	\$4,458,000	\$3,215,000	\$7,673,000
COGS ⁽²⁾	\$3,044,000	\$1,969,000	\$5,013,000
% COGS Impacted	15%	10%	13%
Savings Opportunity %	5%	5%	5%
Opportunity	\$23,000	\$10,000	\$33,000



Previous opportunities	\$432 million
+ SKU/Supplier rat. oppy.	\$ 33 million
Cumulative opportunity	\$465 million

Notes:

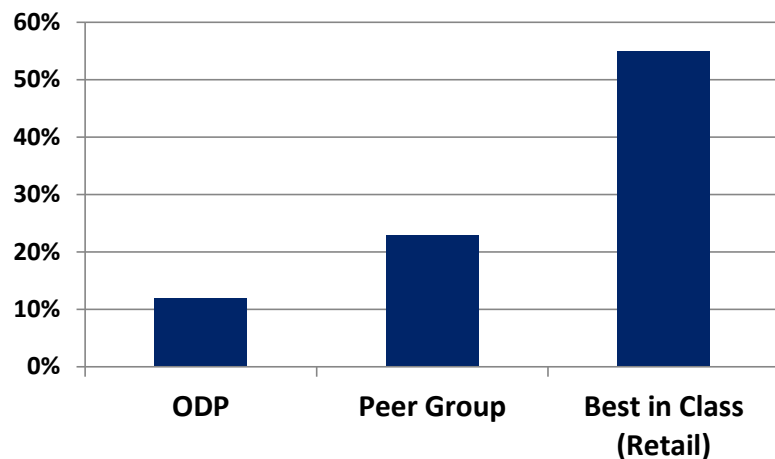
- 1) Source: ODP 10-K SEC filing for 2012
- 2) Excludes occupancy costs which is estimated to be 6% of revenue

ODP'S PRIVATE LABEL STRATEGY IS FLAWED – DIRECT SOURCING

Office Depot's direct sourcing mix of private label products is too low, which indicates that gross margins and profitability should also be higher

- The margin benefit of direct sourced, private label SKUs is approximately 400 to 600 basis points higher than private label products sourced through an agent, which is currently Office Depot's primary method of sourcing private label SKUs
- While Office Depot's current private label penetration mix is roughly in line with peer levels at approximately 25%, we believe the Company's direct, private label SKU penetration of 11% to 12% is too low

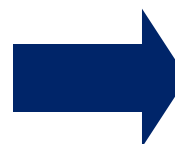
Direct Sourced Private Label SKU Penetration⁽¹⁾



Benefits ⁽²⁾

All figures are in \$Millions

Revenue	\$10,696
COGS (@ 65%) ⁽³⁾	6,952
COGS transitioned to DL (Approximately 11% of total)	765
EBIT Improvement (~ 500 bps)	\$38



Previous opportunities	\$465 million
+ PL direct sourcing oppy.	\$ 38 million
Cumulative opportunity	\$503 million

Notes:

1) Peer group is defined as multi-channel retailers with revenue greater than \$10B

2) Source: Company 10-K SEC filing

3) Reported COGS & Occupancy Costs at 70% of revenue, subtracting approx. 5% for occupancy costs

ODP'S PRIVATE LABEL STRATEGY IS FLAWED – SKU DIFFERENTIATION

Further, the execution of Office Depot's private label program does not provide a clear value alternative to the customer, resulting in customer confusion and possible lost sales

- Note the convoluted shredder offerings at Office Depot store #2385 in Fort Myers, FL
- ODP offers 13 different shredders in this store, 9 of which were its own private label brands, a figure that is excessive relative to a more effective “good, better, best” strategy
- The Company's pricing strategy also lacked focus and was extremely confusing, with no clear logic behind pricing decisions

Lack of Pricing Logic between Different Private Label Products ⁽¹⁾

<u>Brand</u>	<u>Price (\$)</u>	<u>Crosscut</u>	<u>Capacity (Sheets)</u>		
Ativa	89	X	10	}	Private label products with different features priced the same
Ativa	89	X	12		
Ativa	89	X	12	}	Private label products with same features priced differently
Ativa	109	X	12		

Notes:

1) Ativa is ODP's Private Label product

ODP'S PRIVATE LABEL STRATEGY IS FLAWED – SKU DIFFERENTIATION

We also observed some Private Label products being priced at or higher than some of the national brands with superior features

Lack of Pricing Logic between Different Private Label and National Brand Products ⁽¹⁾

<u>Brand</u>	<u>Price (\$)</u>	<u>Crosscut</u>	<u>Capacity (Sheets)</u>		
Fellowes	125	X	12	}	Private label products priced higher than national brand despite having fewer features
Ativa	149	X	8		
Ativa	149	X	8	}	Private label products priced the same as national brand despite having fewer features
Swingline	149	Micro	17		

Office Depot is clearly over sku'd and its private label strategy lacks any clear focus, resulting in customer confusion and lost sales

Notes:

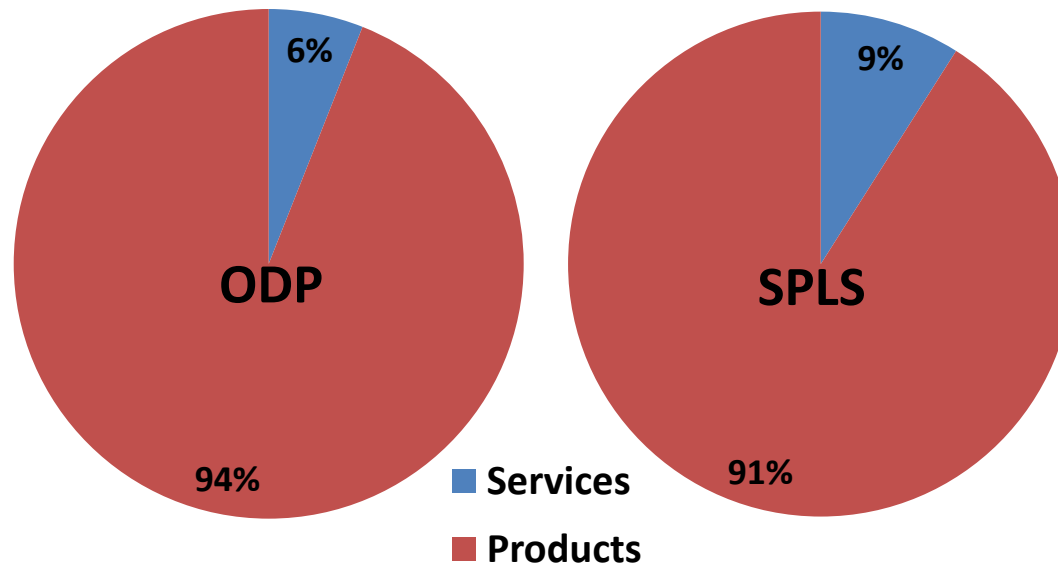
1) Ativa is ODP's Private Label product

ODP HAS A LOW MIX OF HIGH-MARGIN SERVICES

Office Depot is significantly underpenetrated in the sale of high-margin services, including copy and print, shipping and tech support

- Services generally carry gross margins of approximately 60% compared to Office Depot's average store gross margins of approximately 25% to 35%, as well as substantially higher operating margins
- We estimate that services account for approximately 6% of Office Depot's North American Retail Division revenue, which is well below the 9% of Staples' North American Retail revenue generated from high-margin services

Services as a Percentage of North American Retail Revenue

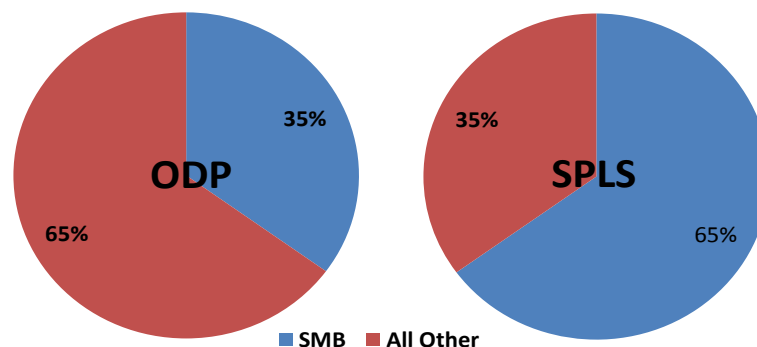


ODP HAS A HIGH MIX OF LOW-MARGIN ENTERPRISE CUSTOMERS

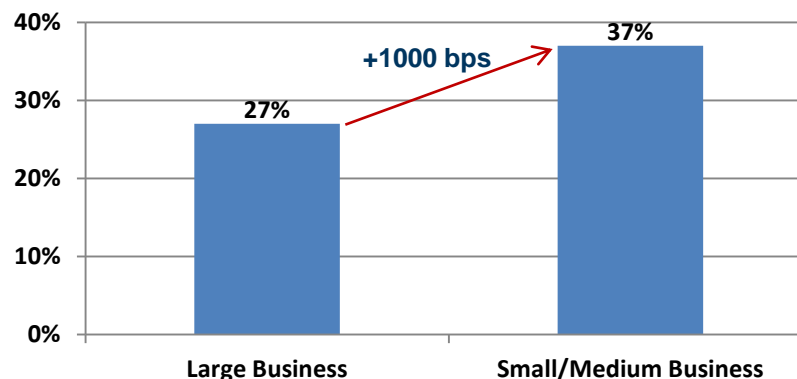
The mix of large, low-margin enterprise customers in Office Depot's Business Solutions Division is significantly higher than the competition

- Office Depot has a long history of incentivizing its BSD sales force to target revenue growth, so its sales people generally target large revenue enterprise accounts even though they carry little operating margin contribution
- As a result, we believe that approximately 65% or more of the Company's BSD revenues are generated by these customers, versus Staples at approximately 35%
- The problem with Office Depot's strategy is that these enterprise customers generally carry razor thin gross margins and are often unprofitable
- Alternatively, small to medium sized businesses (SMB's), which Staples primarily serves, typically offer margins more than 1,000 basis points higher than larger national enterprise accounts

Business Solutions Division Customer Mix (1)



Enterprise versus SMB Gross Margin Differential



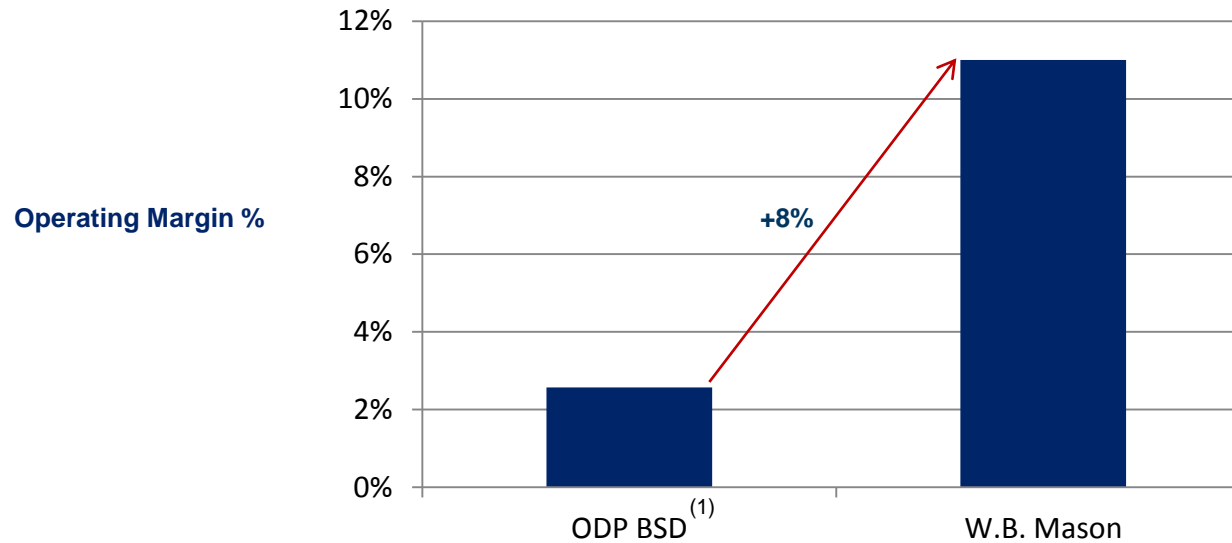
Notes:

1) Source: Industry analysis

INCENTIVIZING BASED ON PROFIT RATHER THAN REVENUE CAN RESULT IN SIGNIFICANT IMPROVEMENT IN FINANCIAL PERFORMANCE

- W.B. Mason is a distributor of office products to businesses in New England and other states on the East Coast
- By focusing on the SMB and incentivizing its sales force based on operating profit, W.B. Mason is able to achieve an operating margin that is much higher than that of the Business Solutions Division of ODP

Example: Office Depot vs. W.B. Mason

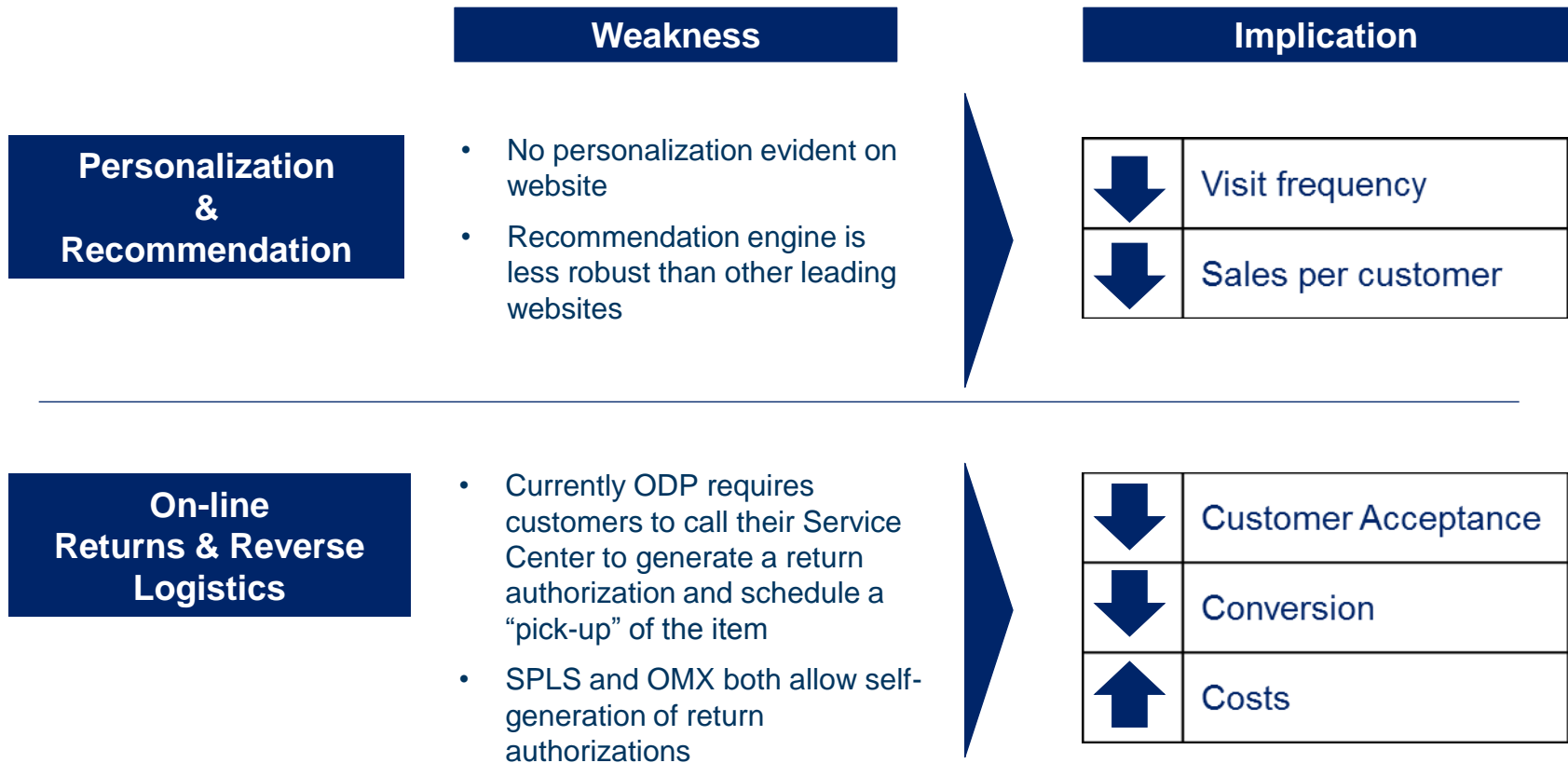


Notes:

- 1) Estimated BSD divisional operating profit, as reported in 8-K filed on April 30, 2012, including allocated corporate G&A expenses, and excluding BSD divisional charges and allocated corporate charges

ODP'S WEB CAPABILITY LACKS KEY FEATURES AFFECTING PROFITABILITY

There are weaknesses in the current website(s) that result in reduced site traffic, reduced conversion/sales, and higher operational costs than competitors



With no evident personalization capability and a limited recommendation engine, ODP's sales per customer is far lower than it otherwise should be.

In addition, having customers call a service center to generate a return authorization, results in frustration among the customer base, lower conversion rates, and higher costs

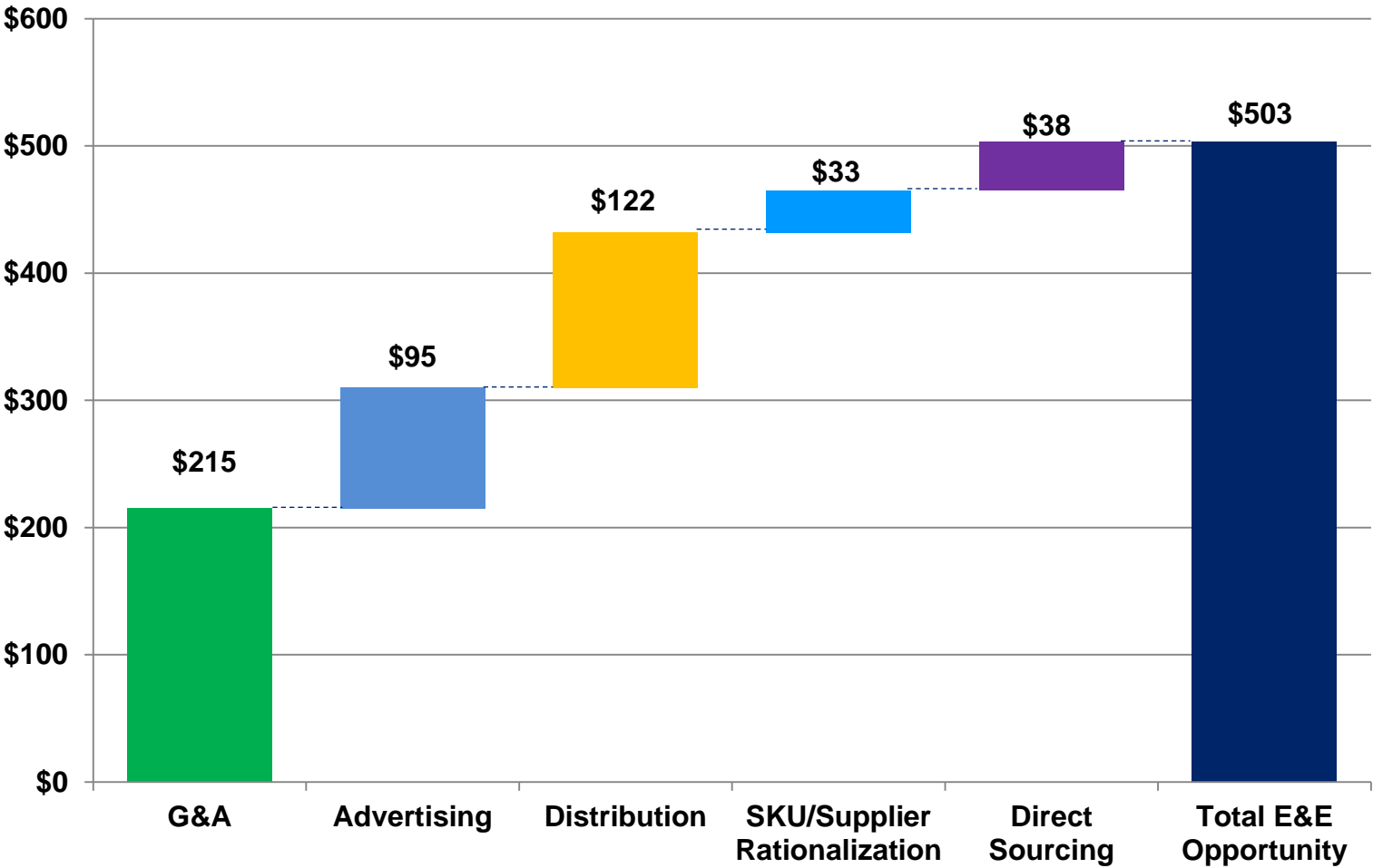
Conclusions...

- ODP failed to move deep enough and fast enough on operating expense reductions
- Assortment optimization, direct sourcing, and SKU right-sizing can produce significant margin improvement
- ODP's Private Label strategy must be overhauled
- Significant improvement in services revenue mix can be achieved
- There is significant opportunity to develop an effective web strategy to capture more sales online

ODP's current strategy is not working and their executional performance is putting the company at risk

SUMMARY OF EFFICIENCY & EFFECTIVENESS OPPORTUNITIES

In \$ Million



ODP'S NEW REAL ESTATE STRATEGY IS FLAWED

ODP'S CURRENT NORTH AMERICAN RETAIL REAL ESTATE STRATEGY HAS FAILED

- According to ODP's 10-Q SEC filing for Q3, 2012:
 - In the third quarter of 2012, impairment charges were taken for 360 stores, over 30% of total 1,114 stores
 - Approximately 230 stores will be reduced to salvage value of \$7 million
 - Approximately 130 stores will be reduced to fair value of \$39 million
- The North American Retail Division has taken charges recently which significantly reduced its operating income⁽¹⁾:

Time Period	Charge	Reported NAR Divisional Income ⁽²⁾
Q1, 2013	\$5 million	\$15 million
2012	\$126 million	(\$102 million)
2011	\$14 million	\$28 million
2010	\$25 million	\$31 million

Notes:

1) Source: ODP's 10-Q SEC filing for Q3, 2013 and 8-K SEC filing dated April 30, 2013

2) Divisional operating income as reported in 8-K filing dated April 30, 2013 and 10-Q for Q1, 2013, and does not include unallocated corporate expenses and charges

ODP PLANS TO DRAMATICALLY ALTER ITS REAL ESTATE FOOTPRINT

- A significant number of ODP stores have leases for renewal over the next 5 years
 - At end of 2012, ODP operated 1,112 stores in North America
 - Over the next three years, approximately 440 stores (40% of store base) have leases up for renewal
 - In addition, approximately 280 stores (25% of the store base) have leases up for renewal in the following 2 years
 - In total, approximately 720 stores (65% of the store base) have leases up for renewal within 5 years
- ODP has publicly stated its plans to significantly downsize the current store base ⁽¹⁾
 - Current average store size is approximately 23,000 sqft
 - ODP will convert 440 (or approximately 40%) of its stores into small format (~ 6,000 sqft): 275 stores in next 3 years, additional 165 stores in the following 2 years
 - ODP will convert 85 stores (or approximately 8%) into mid-size format (~15,000 sqft): 60 stores in next 3 years, additional 25 stores in the following 2 years
 - ODP will close 50 stores as their base lease period ends
 - Remaining stores will remain as configured, or have leases reaching renewal period more than 5 years into the future

In total, Office Depot plans to either downsize or close 52% of its store base over the next five years

Notes:

1) Source: ODP's 10-Q SEC filing for Q3, 2012, and 10-K SEC filing for 2012

ODP HAS OUTLINED OPTIMISTIC FINANCIAL BENEFITS

- According to ODP⁽¹⁾, after remodeling, small stores (6,000 sqft footprint) will:
 - Retain 90% of revenue
 - Reduce SKU count per store by as much as 50%
 - Achieve significant savings in rent expenses due to smaller store footprint
- ODP believes that total benefit of converting to small and medium-format stores will result in higher margin overall for ODP

Illustrative example of ODP's four wall margin in its small format store assuming 90% revenue retention, improved Gross Margin from higher mix of service revenue, rent savings, and labor cost savings

<i>All \$ figures are in thousands except sqft</i>	Current Store ⁽¹⁾	Small Format Store
<i>Square footage</i>	23,000	6,000
Revenue	\$4,000	\$3,600
Gross margin ⁽²⁾⁽³⁾	\$960	\$1,154
Operating expenses ⁽⁴⁾⁽⁵⁾	\$727	\$661
Operating profit	\$233	\$493
<i>Operating profit margin</i>	5.8%	13.7%
Total operating profit impact per converted store		\$260

Notes:

- 1) Source: ODP's 10-K SEC filing for 2012, and transcript of Q3, 2012 ODP Earnings Conference Call on November 6, 2012
- 2) Includes Distribution costs
- 3) Assume the small format stores will carry 2% higher gross margin due to higher percentage of high-margin product/service revenue, and rent savings of \$218K per store due to smaller store (23K sqft to 6K sqft, and rent increase from \$16/sqft to \$25/sqft)
- 4) Excludes distribution costs already included in COGS and Occupancy Costs
- 5) Assume a small format stores requires on average 1.5 less FTE for a total of \$66K per year

THESE ASSUMPTIONS ARE UNREALISTIC

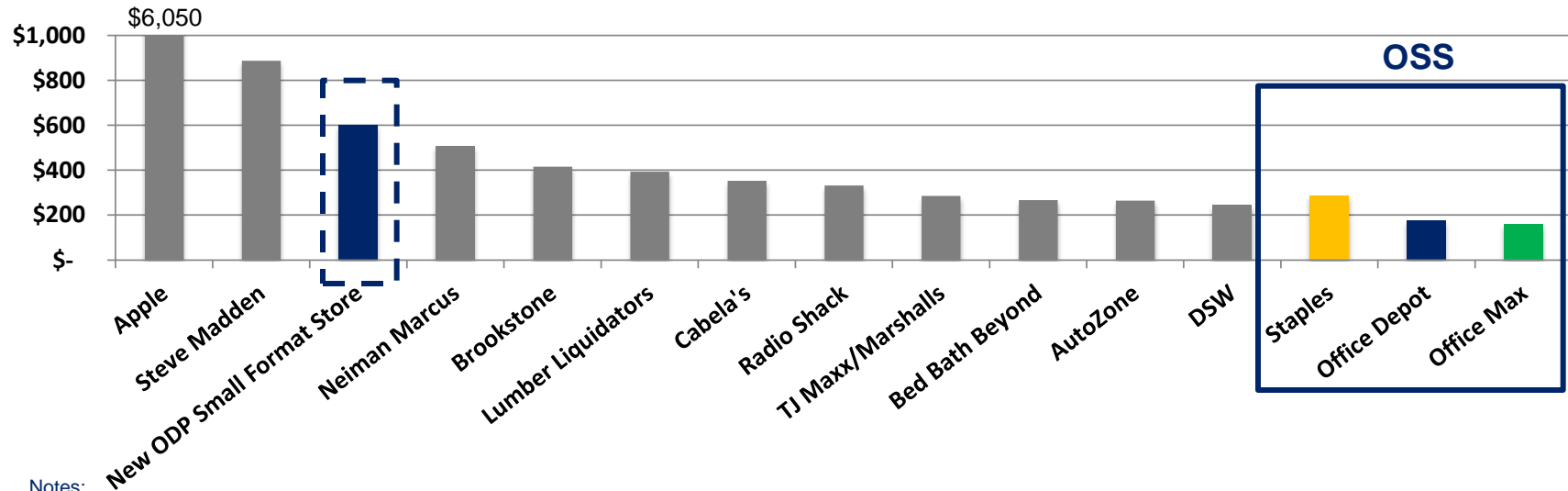
The assumption by Office Depot that it will retain 90% of its sales in its small store format (6,000 square feet), implies that revenue per square foot will be \$600, compared to the current format of only \$175 per square foot

Store Format	Square Foot	Rev / Store (\$K) ⁽²⁾	Rev / Sqft
Current ⁽¹⁾	22,948	\$4,009	\$175
Mid-Size	15,000	\$4,000	\$267
Small	6,000	\$3,600	\$600

For these assumptions to be true, the new small-format stores (which ODP plans to convert ~40% of its store base), would need to have over twice the revenue per square foot as the average Staples store and even higher than the leading Department Store – Neiman Marcus

Sales Per Square Foot – Retail Specialty Stores ⁽³⁾

Rev (\$) / sqft



Notes:

- 1) Figures for current format stores are from ODP's 10-K SEC filing for 2012
- 2) For small format stores, Rev/Store is assumed to be 90% of current store average
- 3) Source: Companies' SEC filings

WE QUESTION THE ACTUAL PROFITABILITY OF ODP'S SMALL FORMAT STORES

Assuming a more realistic, but still difficult to achieve revenue per square foot for the small format store of \$300/sqft, which is still higher than that of Staples and off-price stores leader TJ Maxx (both at \$285/sqft) and 70% higher than ODP's current average (\$175/sqft), the likely impact on operating profit due to the conversion to the small-format store would actually be a loss of \$208K per converted store compared to the current store.

All \$ figures are in thousands except square footage & \$/sqft

	Current Store ⁽¹⁾	Small Format Store
<i>Square foot</i>	23,000	6,000
<i>Revenue / Sqft</i>	\$175	\$300
Revenue	\$4,000	\$1,800
Gross margin ⁽²⁾⁽³⁾	\$960	\$686
Operating expenses ⁽⁴⁾⁽⁵⁾	\$727	\$661
Operating profit	\$233	\$25
<i>Operating profit margin</i>	5.8%	1.4%
Total operating profit impact per converted store		\$ (208)

If ODP converts 440 stores to the small store format as currently planned, we believe operating profit would be negatively impacted by approximately \$92 million per year, even if ODP can increase its sales per square foot to \$300/sqft (higher than Staples at \$285/sqft)

Notes:

- 1) Source: ODP's 10-K SEC filing for 2012, and transcript of Q3, 2012 ODP Earnings Conference Call on November 6, 2012
- 2) Includes Distribution costs
- 3) Assume the small format stores will carry 2% higher gross margin due to higher percentage of high-margin product/service revenue, and rent savings of \$218K per store due to smaller store (23K sqft to 6K sqft, and rent increase from \$16/sqft to \$25/sqft)
- 4) Excludes distribution costs already included in COGS and Occupancy Costs
- 5) Assume a small format stores requires on average 1.5 less FTE for a total of \$66K per year

THE CONVERSION TO MEDIUM-FORMAT STORES HAS A FAR BETTER CHANCE OF SUCCESS

Our initial analysis suggests that converting current stores to a medium size format (with \$267 sales / sqft) has a much better chance of success, and will be accretive to ODP's profitability

All \$ figures are in thousand except square footage & \$/sqft

	Current Store ⁽¹⁾	Medium Format Store
<i>Square foot</i>	23,000	15,000
<i>Revenue / Sqft</i>	\$175	\$267
Revenue impact	\$4,000	\$4,000
Gross margin ⁽²⁾⁽³⁾	\$960	\$1,028
Operating expenses ⁽⁴⁾⁽⁵⁾	\$727	\$694
Operating profit	\$233	\$334
<i>Operating profit margin</i>	5.8%	8.4%
Total operating profit impact per converted store		\$101

We believe reducing square footage from 23,000 to 15,000, if done properly, results in limited to no decline in total store revenue, but carries the advantage of reducing rent, labor costs and SKU's to improve profitability

Office Depot could also decide to use extra real estate in select locations as small/local distribution centers for same-day delivery

Notes:

- 1) Source: ODP's 10-K SEC filing for 2012, and transcript of Q3, 2012 ODP Earnings Conference Call on November 6, 2012
- 2) Includes Distribution costs
- 3) Assume same COGS %, and savings in rent of \$68K per store per year, due to smaller store footprint and rent increase of \$16/sqft to \$20/sqft
- 4) Excludes Distribution costs
- 5) Labor cost savings due to smaller footprint and SKU reduction is assumed to average 0.75 FTE for medium stores (~33K/year)

IMPACT TO OPERATING PROFIT

If the current store strategy is executed as planned, ODP will spend \$300 million in capital expenditures over 5 years and result in a negative annual impact of \$103 million in operating profit (note: 2012 adjusted operating profit is \$96 million)

All \$ figures are in thousand except \$/sqft

	Current ⁽¹⁾	Medium	Small
Planned opening (closing) store count	(525)	85	440
Per store			
<i>Square foot</i>	23,000	15,000	6,000
<i>Revenue / Sqft</i>	\$175	\$267	\$300
Revenue	\$4,000	\$4,000	\$1,800
Gross margin ⁽²⁾⁽³⁾	\$960	\$1,028	\$686
Operating expenses ⁽⁴⁾⁽⁵⁾	\$727	\$694	\$661
Operating profit	\$233	\$334	\$25
<i>Operating profit margin</i>	5.8%	8.4%	1.4%
Total operating profit impact for all stores			\$ (82,935)
Incremental Depreciation ⁽⁶⁾			\$ (20,000)
Total operating profit impact			\$(102,935)
Capital expenditure			
(\$60 million / year over 5 years) ⁽¹⁾			\$ 300,000

Notes:

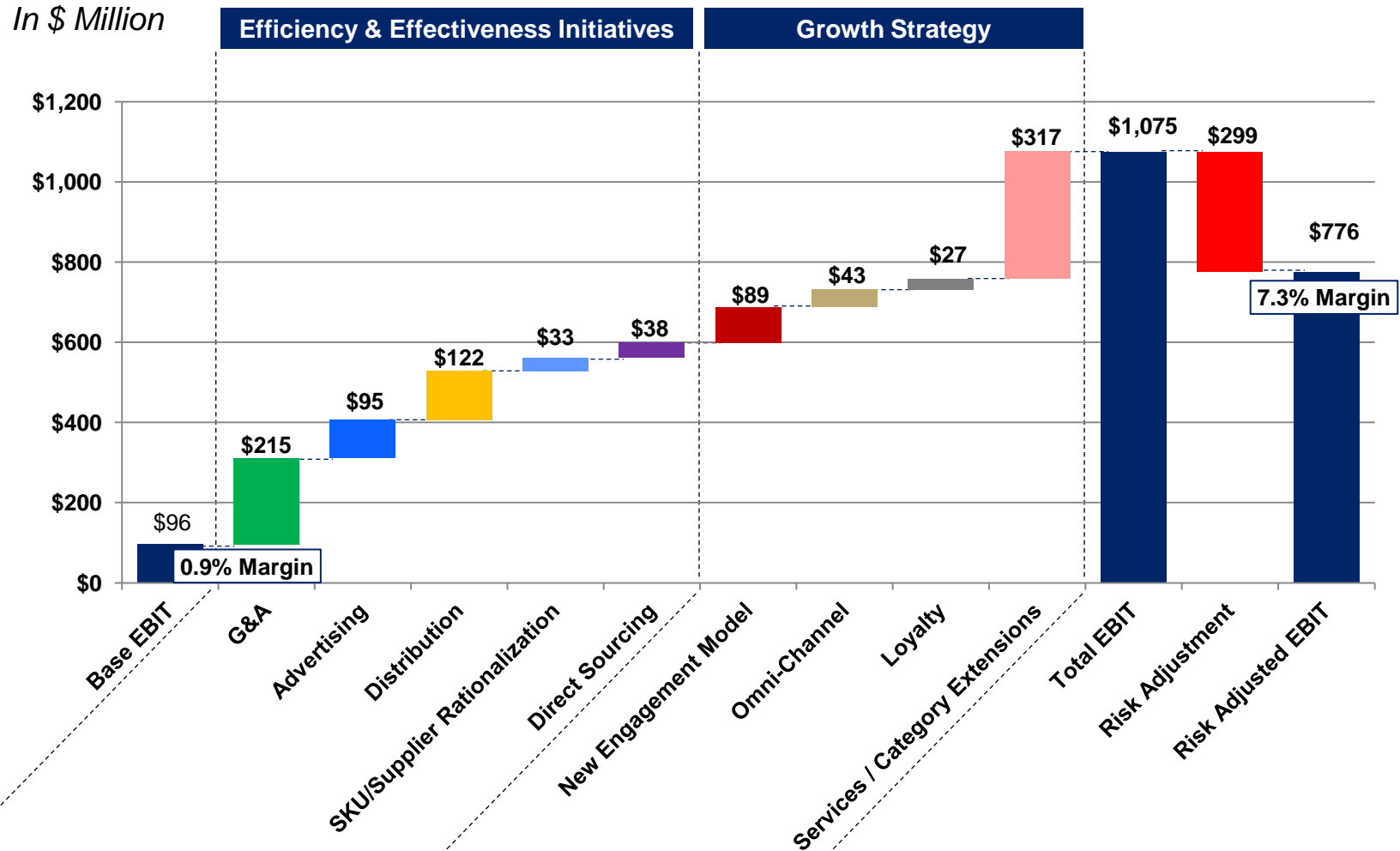
- 1) Source: ODP's 10-K SEC filing for 2012, and transcript of Q3, 2012 ODP Earnings Conference Call on November 6, 2012
- 2) Includes Distribution costs
- 3) Assume same Gross Margin % for medium store, and 2% improvement in GM% for small store, and net rent savings resulting from smaller store footprint
- 4) Excludes Distribution costs
- 5) Average labor cost savings due to smaller footprint and SKU reduction is assumed to be \$33K/year for medium stores and \$66K/year for small stores
- 6) Assume \$300 million total capital expenditure depreciated over 15 years

- Current strategy has low likelihood of success
 - Large scale success for small format stores requires heretofore unachieved sales productivity by any OSS retailer
 - Small format stores may work in selected locations to replace current underperforming stores, but doing so for 440 stores (40% of the chain) is highly unrealistic
 - Requires \$300 million capital investment over 5 years
 - Potentially result in an incremental annual loss of approximately \$103 million in operating profit based on more realistic performance assumptions, which will reduce ODP's adjusted operating profit from \$96 million to negative \$7 million ⁽¹⁾
- We seriously question whether the management and Board fully analyzed the small store format before deciding to roll it out to approximately 40% of its store base
- Based on our analysis, we question why the Board of Directors would approve such a risky and unrealistic real estate strategy?
- The real estate strategy should be re-evaluated immediately

TOTAL MARGIN IMPROVEMENT OPPORTUNITIES

After implementing our plan, we believe that ODP has the opportunity to achieve \$776 million in annual EBIT (7.3% margin) after full implementation of the Efficiency & Effectiveness Initiatives and the Growth Strategy

Annual EBIT Run Rate After Full Implementation



Notes:

1) Based on ODP 10-K for 2012

EFFICIENCY AND EFFECTIVENESS INITIATIVES DETAILS

POTENTIAL G&A EXPENSE OPPORTUNITY

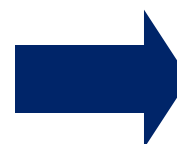
We believe Office Depot has a significant opportunity to improve profitability by approximately \$215 million by implementing key actions to achieve “median” benchmark performance for G&A expense

G&A Expense Opportunity

(\$ in thousands)

Total 2012 Sales: \$10,695,000

(\$ in thousands)	Est. 2012 Spend ¹	Est. ODP %	Benchmark % ²	ODP at Benchmark	Opportunity
All Divisions:					
IT	\$242,777	2.27%	1.40%	\$149,730	\$100,000
Finance	\$168,981	1.58%	1.01%	\$108,020	\$60,000
Merchandising	\$81,282	0.76%	0.25%	\$26,738	\$55,000
Total	\$493,040	4.61%	2.66%	\$284,487	\$215,000



Previous opportunities	\$ 0 million
+ G&A opportunity	\$215 million
Cumulative opportunity	\$215 million

Notes:

- 1) Estimated ODP G&A cost distribution based on external interviews and estimates
- 2) Industry Benchmarks: Median Performance for Global Retail Cohort >\$10B

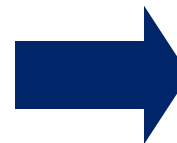
Key action levers to achieve benchmark performance include:

Key Action Levers	Details
Global service delivery model rationalization	<ul style="list-style-type: none"> • Expansion of shared services to support NAR, BSD and INT • Rationalize/consolidate local support • Expand global transaction processing centers , i.e., AP and HR
Streamlining and consolidating global G&A functions and processes (e.g., COEs, low cost/third party transaction centers)	<ul style="list-style-type: none"> • Further standardize business processes across divisions • Expand outsourcing for cost advantage
Reducing per unit transaction costs	<ul style="list-style-type: none"> • Reduce fixed cost base, e.g. IT infrastructure • Move to variable pricing for outside services, e.g., IT network bandwidth
Reducing / eliminating outside consultants and rationalizing all external expenditures	<ul style="list-style-type: none"> • Prioritize projects, re-assign internal staff to high priority efforts • Eliminate non-critical expenditures
Implementing demand management	<ul style="list-style-type: none"> • Adjusting consumption of G&A reports and other services to benchmark targets (affordability)

POTENTIAL ADVERTISING EXPENSE OPPORTUNITY

We believe Office Depot has a significant opportunity to improve profitability by approximately \$95 million by reducing advertising expenses and more effectively allocating advertising dollars, with a focus on ROI

Advertising Expense Opportunity (\$ in thousands)				
2011 ODP (\$000)	NAR	BSD	INT	Total
Sales	\$4,457,826	\$3,214,915	\$3,022,911	\$10,695,652
Est. Advertising Spend	\$151,900	\$144,700	\$105,800	\$402,400
Less: NASCAR	(\$15,000)	(\$15,000)	\$0	(\$30,000)
Advertising as % Sales (adjusted)	3.1%	4.0%	3.5%	3.5%
Benchmark (Median) ⁽¹⁾	2.5-2.7%	2.5-3.0%	2.0-2.5%	2.0-3.0%
2011 SPLS (\$000)				
Sales	\$11,827,906	\$8,108,402	\$4,444,202	\$24,380,510
Est. Advertising	\$257,171	\$198,656	\$77,774	\$533,600
Advertising as % Sales	2.2%	2.5%	1.8%	2.2%
Opportunities (\$000):				
NAR Reductions				
Percentage savings	20%			
Amount	\$30,000			\$30,000
BSD/INT Reductions				
Percent savings		23%	30%	
Amount		\$33,000	\$32,000	\$65,000
Revised Advertising Spend	\$121,920	\$111,675	\$73,805	\$307,400
Revised Advertising as % of Sales	2.7%	3.5%	2.4%	2.9%
Total				\$95,000



Previous opportunities	\$215 million
+ Advertising opportunity	\$ 95 million
Cumulative opportunity	\$310 million

Key action levers to achieve benchmark performance include:

North American Retail Key Action Levers	Details
Evaluate media mix / efficacy (e.g., print, TV, online)	<ul style="list-style-type: none"> Evaluate return / lift of media spending by type Determine appropriate allocation of advertising expenditure among media types Reallocate advertising spend to maximize return
Focus on competitive and winnable markets, increase “dark” markets	<ul style="list-style-type: none"> Reduce advertising in markets with marginal returns Increase advertising spending in key competitive markets
Evaluate frequency: 4x month – 2x month	<ul style="list-style-type: none"> Optimize frequency of inserts based on market performance
Increase vendor participation	<ul style="list-style-type: none"> Structure advertising to increase vendor contribution (vendor funded space)
Reduce size	<ul style="list-style-type: none"> Optimize number of pages based on market performance
Evaluate quality	<ul style="list-style-type: none"> Evaluate paper specification to reduce cost

Business Solutions Division & International Key Action Levers	Details
Converted printed catalog to online	<ul style="list-style-type: none"> Convert and expand online options for printed catalog
Rationalize catalog content and frequency	<ul style="list-style-type: none"> Evaluate number and timing of “special” catalogs Rationalize seasonal special editions

POTENTIAL DISTRIBUTION EXPENSE OPPORTUNITY

We believe Office Depot has a significant opportunity to improve profitability by approximately \$122 million by addressing its relatively high distribution expenses

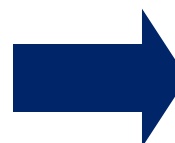
ODP's distribution and warehouse network is less efficient than peers due to:

- Reliance on expensive third party arrangements for out-bound delivery and direct import*
- Poorly thought-out and expensive International distribution network*
- Maintaining the same physical network footprint (since 2010) despite declining sales*

Distribution Expense Opportunity

(\$ in thousands)

(\$000) All Divisions:	2012 Sales	Est. 2012 Spend ⁽¹⁾	Est. ODP %	Benchmark % ⁽²⁾	ODP at Benchmark	Opportunity
NAR	\$4,460,087	\$196,244	4.4%	3-4%	\$133,803 - 178,403	\$40,000
BSD	\$3,208,696	\$224,609	7.0%	5-6%	\$160,435 - 192,522	\$48,000
INT	\$3,026,870	\$290,610	9.6%	8-9%	\$242,150 - 272,418	\$34,000
Total	\$10,695,653	\$711,462	6.7%	5.5%	\$577,760 - 692,650	\$122,000



Previous opportunities	\$310 million
+ Distribution opportunity	\$122 million
Cumulative opportunity	\$432 million

Notes:

1) Total distribution as reported in 2012 10-K, estimated ODP costs allocation to different divisions

2) Industry Benchmarks: Median Performance for Global Retail Cohort >\$10B

Key action levers to achieve benchmark performance include:

Key Action Levers	Details
Increasing direct import volume	<ul style="list-style-type: none"> • Reduce or eliminate reliance on third party logistics service providers for imported products
Facility consolidation	<ul style="list-style-type: none"> • Reduce number of US distribution centers from 15 to 10 • Evaluate selected store space for local order fulfillment
Optimizing delivery frequency	<ul style="list-style-type: none"> • Implement demand-driven delivery to stores (from static schedule at ~3x/week to dynamic scheduling based on demand)
Implementing segmented flows based on customer needs	<ul style="list-style-type: none"> • Evaluate and optimize distribution strategy based on product segment and profitability
Improving OTRQ (On-Time Right Quantity) performance and penalties	<ul style="list-style-type: none"> • Implement supplier benefits and penalties to improve delivery performance, including Total Cost Model
Reduce cost of reverse logistics	<ul style="list-style-type: none"> • Reduce the cost of product returns process

POTENTIAL PRIVATE LABEL DIRECT SOURCING OPPORTUNITY

We believe Office Depot has an opportunity to improve profitability by approximately \$38 million by significantly increasing its mix of direct sourced, private label SKUs

- We believe there is an opportunity to increase direct sourced, private label penetration from approximately 11-12% currently to approximately twice as high while reducing agent-procured private label SKUs
- We estimate that this mix shift would drive 400 to 600 basis points of margin improvement, or \$30 million to \$45 million of increased profitability, for items sourced directly

Private Label Direct Sourcing Opportunity

(\$ in millions)

Revenue	\$10,696
COGS @ 65%	6,913
COGS transitioned to direct source	760
Opportunity (@ ~ 500 bps)	\$38



Previous opportunities	\$432 million
+ PL direct sourcing oppy.	\$ 38 million
Cumulative opportunity	\$470 million

Office Depot must:

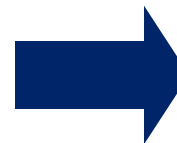
Key Action Levers	Details
Drive direct sourcing as the preferred alternative to sourcing through agents, with select exceptions based on cost and quality	<ul style="list-style-type: none"> • Expand and accelerate direct sourcing capabilities • Assign aggressive targets by category for direct sourcing penetration
Develop and reinforce clear strategy that guides the development and inclusion of private label products	<ul style="list-style-type: none"> • Adopts a price leader private label strategy that delivers improved quantity and quality over national brands • Set aggressive private label profitability targets by category
Improve the line logic of “good, better, best,” and assort the right balance of features and benefits to allow the customer a clear choice	<ul style="list-style-type: none"> • Correct and rationalize private label product positioning strategy

POTENTIAL SKU AND SUPPLIER COUNT OPPORTUNITY

By rationalizing its excessive SKU count and supply base, Office Depot has an opportunity to improve profitability by \$33 million

SKU Count Opportunity (\$ in thousands)

	NAR	BSD	Total
2012 Revenue	\$4,458,000	\$3,215,000	\$7,673,000
COGS ⁽¹⁾	\$3,044,000	\$1,969,000	\$5,013,000
% Procurement Cost Impacted	15%	10%	13%
Savings Opportunity %	5%	5%	5%
Opportunity	\$23,000	\$10,000	\$33,000



Previous opportunities	\$470 million
+ SKU/Supplier rat. oppy.	\$ 33 million
Cumulative opportunity	\$503 million

Notes:

- 1) Excludes occupancy costs which is estimated to be 6% of revenue
- 2) Source: ODP 10-K SEC filing for 2011

Key Improvement Actions:

Key Action Levers	Details
Realigning the private label strategy	<ul style="list-style-type: none"> • Develop a “good, better, best” product assortment • Develop a more effective line logic • Standardize pricing standards
Consolidating the supplier base to reallocate open-to-buy preferred vendors	<ul style="list-style-type: none"> • Evaluate vendor by economic performance and total cost model by product category • Rationalize supplier base while respecting risk management needs
Drive average order value to competitive levels	<ul style="list-style-type: none"> • Expand ODP online presence, increase advertising spending in online channel • Develop a deep online catalog through direct sourcing, a supplier network, and a new marketplace-driven platform

POTENTIAL SERVICES OPPORTUNITY

We believe Office Depot has an opportunity to improve profitability by approximately \$16 million to \$47 million by significantly increasing its mix of high-margin services as a percentage of revenue

The analysis below shows the operating income benefits if service revenue as percentage of total sales is increased to certain levels. For specific actions and cost-benefit analysis, please see the Services / Categories Extension discussion in the Growth Strategy section

Services Opportunity (\$ in thousands)

Per Store	Current	Potential Opportunity		
Service as % Revenue	6%	9%	12%	15%
Revenue ⁽¹⁾	\$4,000			
Additional service revenue		\$ 120	\$ 240	\$ 360
Gross margin improvement (30%)		\$ 36	\$ 72	\$ 108
Net additional labor ⁽²⁾		\$ 22	\$ 44	\$ 66
Net operating profit impact		\$ 14	\$ 28	\$ 42
Total OP impact for all 1,112 stores		\$15,600	\$31,100	\$46,700

Notes:

1) Revenue per store is based on ODP's 2012 10-K SEC filing. ODP has 1,112 stores open at end of 2012

2) Assuming on average, every 3% improvement of service revenue as % total sales will require additional 1/3 FTE resource per store, or \$66K / 3 = \$22K per store

POTENTIAL BUSINESS CUSTOMER MIX OPPORTUNITY

By increasing Business Solutions Division's (BSD) mix of highly-profitable SMB customers, and decreasing the mix of low-margin enterprise customers, by 10% to 15%, we estimate that Office Depot could improve profitability by \$32 million to \$48 million

The analysis below shows the operating income benefits if higher percentage of total sales to small- and medium-sized businesses can be achieved. For specific actions and cost-benefit analysis, please see the Services / Categories Extension discussion in the Growth Strategy section

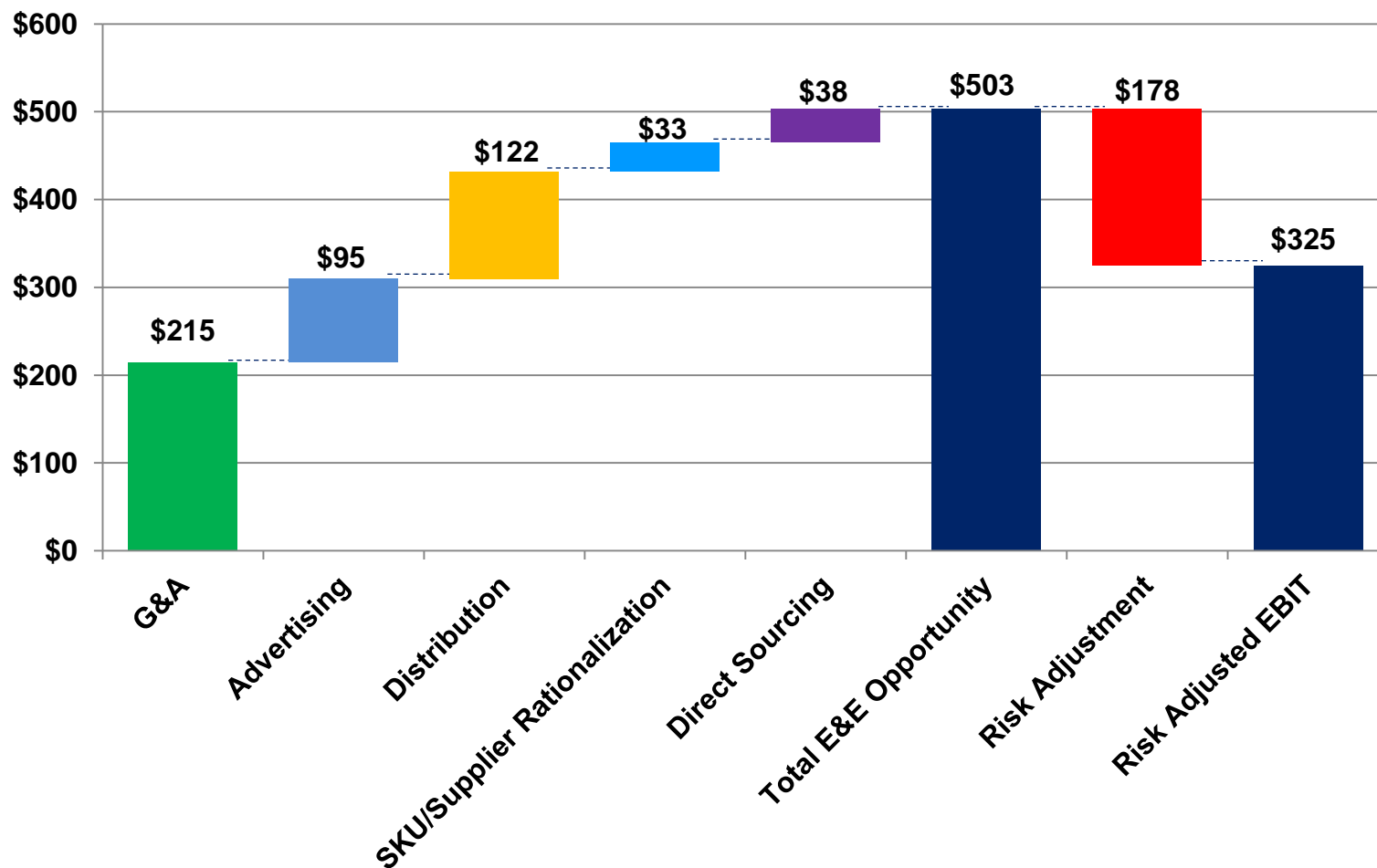
Customer Mix Opportunity

(\$ in millions)

2012 BSD revenue	\$3,215		
Current % sales to SMB	35%		
SMB mix improved to		45%	50%
Additional revenue to SMB		\$321	\$482
Margin improvement (1,000 bps)		\$ 32	\$ 48

SUMMARY AND RISK ADJUSTMENT – EFFICIENCY & EFFECTIVENESS OPPORTUNITIES

In \$ Million



GROWTH STRATEGY

THERE ARE SIGNIFICANT OPPORTUNITIES WITH THE EXISTING ASSET BASE TO DRIVE SUBSTANTIAL GROWTH

Office Depot should not only focus on operational improvement, but also explore opportunities to reach more customers and offer solutions rather than simply products or services

- Core assets already in place to support growth
 - Over 1000 US Retail locations interacting with 1000's of customers and SMB's daily
 - A mature and experienced business services segment providing products and services to consumers and SMB's
 - 5th largest e-commerce website
- Become a complete solution provider to SMB's
 - Products are only part of the solution
 - ODP should consider providing higher margin services
 - Partner(s) can be leveraged to reduce the required capital investments and fill gaps in ODP's capabilities needed to offer extended categories of services, e.g., web site development
 - ODP should target currently underserved SMB's by becoming a one-stop solutions provider to SMB's through a deliberate omni-channel strategy
 - Focusing on SMB's will not alienate ODP's existing consumer customers
- Capitalize on ODP's position as the 5th largest online retailer, behind only Amazon, Staples, Apple and Dell ⁽¹⁾
 - Examples from leading online retailers
 - Wal-Mart & Amazon: Expanding online to have local stores/partners fulfill same day delivery
 - Staples: Becoming one stop shop for business fulfillment, similar to Amazon Marketplace for businesses

BECOMING A COMPLETE SOLUTIONS PROVIDER TO SMB

Office Depot should focus on building and extending its customer appeal through enabling omni-channel capabilities combined with new solutions and solutions focus

- Develop omni-channel capabilities to serve SMB's and other customers regardless of how they shop
 - Provide ODP employees with full visibility to customers history, open orders and preferences when interacting in stores, online, or over the phone
 - Example: allow customers to place order online and pick up in stores in the same day
 - Uniquely tailor customers' online and in-store experience to their needs and preferences
 - Change organizational focus and capabilities from product- or channel-centric to customer-centric
 - Develop incentive programs aligned with omni-channel strategy
- Extend product and service offerings to become one-stop solutions provider to SMB's
 - Subscription-based tech support / IT services
 - Managed print solutions
 - Office design solutions
 - Office Depot credit and loyalty programs
 - Website & domain name services

Notes:

1) For a more detailed discussion, please go to the Services / Category Extension slides in Growth Strategy section

OPPORTUNITIES ON INTERNET PLATFORM

Office Depot has an opportunity to leverage its on-line platform to provide more products and services to SMB's and consumers

- Although it is the 5th largest online retailer, Office Depot lags Staples (#2 behind only Amazon) in expanding into the internet platform
 - Approximately 35% of Office Depot's revenue came from online, compared to Staples at over 40% ⁽¹⁾
 - Office Depot's online store offers approximately 70 thousand SKUs, compared to Staples' online store offering over 100 thousand SKUs
 - Office Depot should offer more products in its online stores
- Office Depot should investigate different approaches to expand its online presence, some of which have been adopted by other leading online retailers
 - Becoming a one-stop solutions provider for SMB's, capable of satisfying all their needs
 - Develop an ODP online store offering similar to Amazon Marketplace for SMB's, leveraging other sellers to offer more specialized products and services
 - Re-allocate some of the space in large stores to hold inventory for online/same day fulfillment

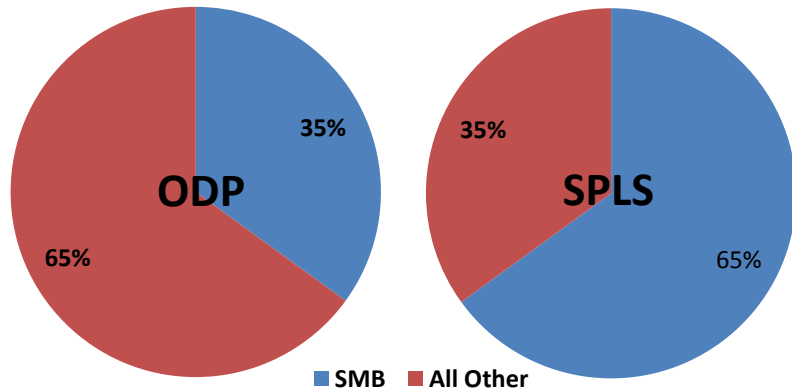
Notes:

1) Online revenue figures for each company was provided by OfficeMax Investor Day presentation, Nov. 16, 2011

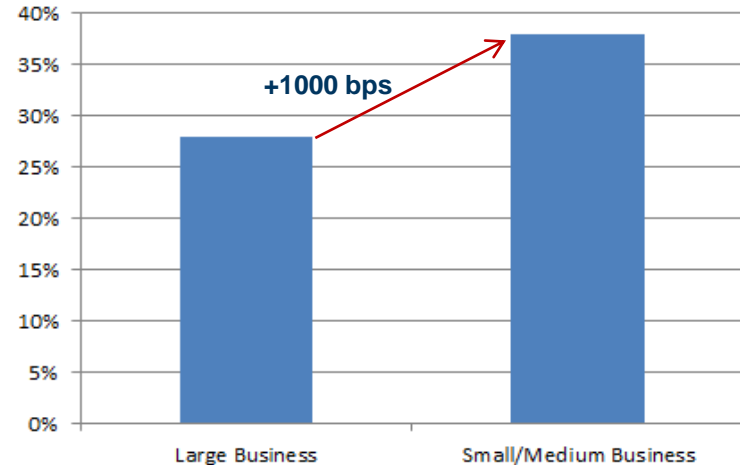
DRIVING NEW VALUE WITHIN ODP

Our vision is to focus on the needs of the SMB target customer, deliver crisp value propositions to serve their needs, and draw others who are attracted to the value propositions

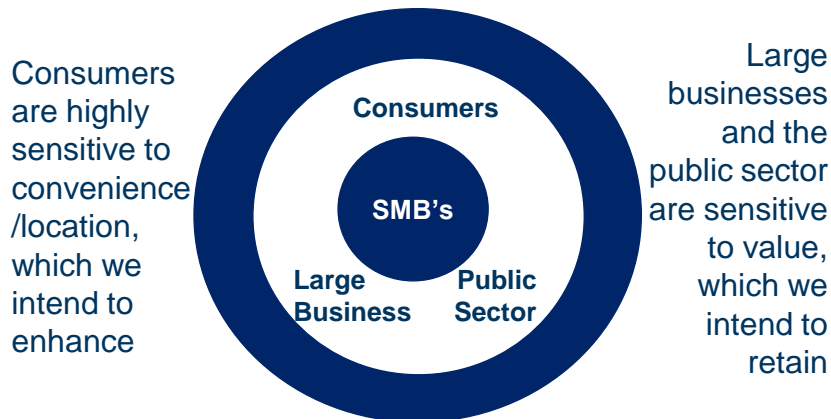
Mix of Segment Revenue ⁽¹⁾



Margin Rate



Serving SMB's will not turn off others



SMB's are underserved

- SMB's needs evolve as they grow, increasing their spend on adjacent categories
- Our research shows that SMB's are not well served in this space, based on NPS scores
- There is an opportunity for someone to emerge and address their needs

Notes:

1) Source: "Starboard Discloses 13.3% Ownership in Office Depot and Sends Letter to CEO and Board Directors", PRNewsWire, September 17, 2012

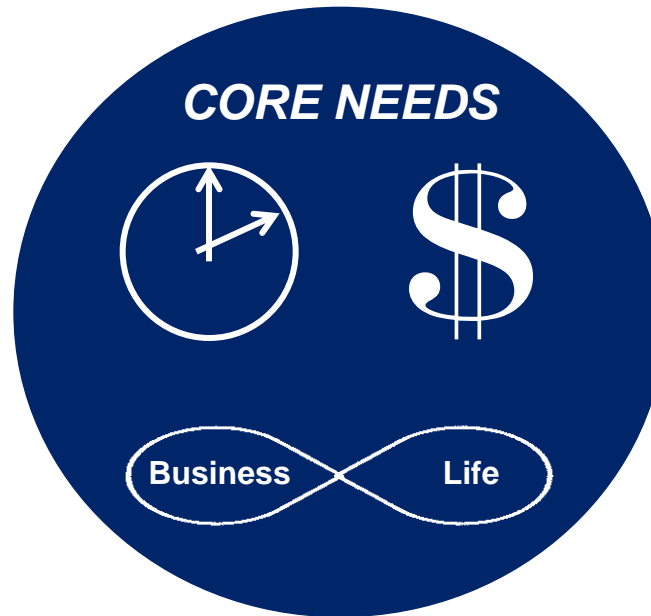
DRIVING NEW VALUE WITHIN ODP

SMB's have told us what a provider needs to demonstrate to win their loyalty

We conducted focus groups, online surveys, and individual interviews of SMB owners and purchasing managers, and heard the following:

Respect Me and My Time

"I wouldn't go completely out of my way to a store that's pretty far away just to save 10, 5%..its not worth it, because I'm very busy."
– Respondent



Reward Me

"[membership rewards].. You can spend \$50 dollars a year if you're getting some of those kinds of benefits...Its like Costco membership and quite often I've gotten back some [reward dollars]...I had one year that I maxed out...the more you spend, the more you get back."
– Respondent

My Business is My Life

" [supplies shopping]I'm the purchasing agent for everything, and even though it takes away from my time selling and trying to move things forward..."
– Respondent

DRIVING NEW VALUE WITHIN ODP

To address the SMB's core needs, ODP must implement four Growth Strategy to reposition themselves as the provider of choice

Core Needs

- Respect Me and My Time
- My Business is My Life
- Reward Me



GROWTH STRATEGY TO ADDRESS CORE NEEDS

Engagement Model

Redesign the way in which ODP engages the SMB, understands their needs, and provides solutions

- New selling processes and tools
- Re-aligned incentives
- Institutionalize selling culture



True Omni-Channel Presence

Recognize the customer whenever and wherever they choose to engage with us to improve the context of the engagement

- Visibility of customer information across all channels
- Individualized shopping experience



Reinvented Loyalty Program

Dramatically simplify the rewards mechanisms to increase the perception of value and ease of use

- New loyalty program
- ODP debit cards
- Simplified rules and rewards mechanisms



Services / Category Extensions

Expand services and adjacent categories where ODP can grow share of mind and share of spend

- IT services
- Managed Print
- Office Design
- Web services
- Mobile phones / activation



Our changes will transform the customer relationship with ODP from “Order Taking” to “Solution Selling”

Evidence of Problem

- Declining average order value
- Declining traffic
- Interaction with staff in stores and BSD
- Online lack of personalization/ recommendation engine

Key Action Levers

- Institutionalize a selling culture
- Deploy best-in-class sales processes and tools
- Provide employees with instant access to product and customer information
- Align incentives to solution selling
- Make employees customer segment aware and able to provide tailored solutions

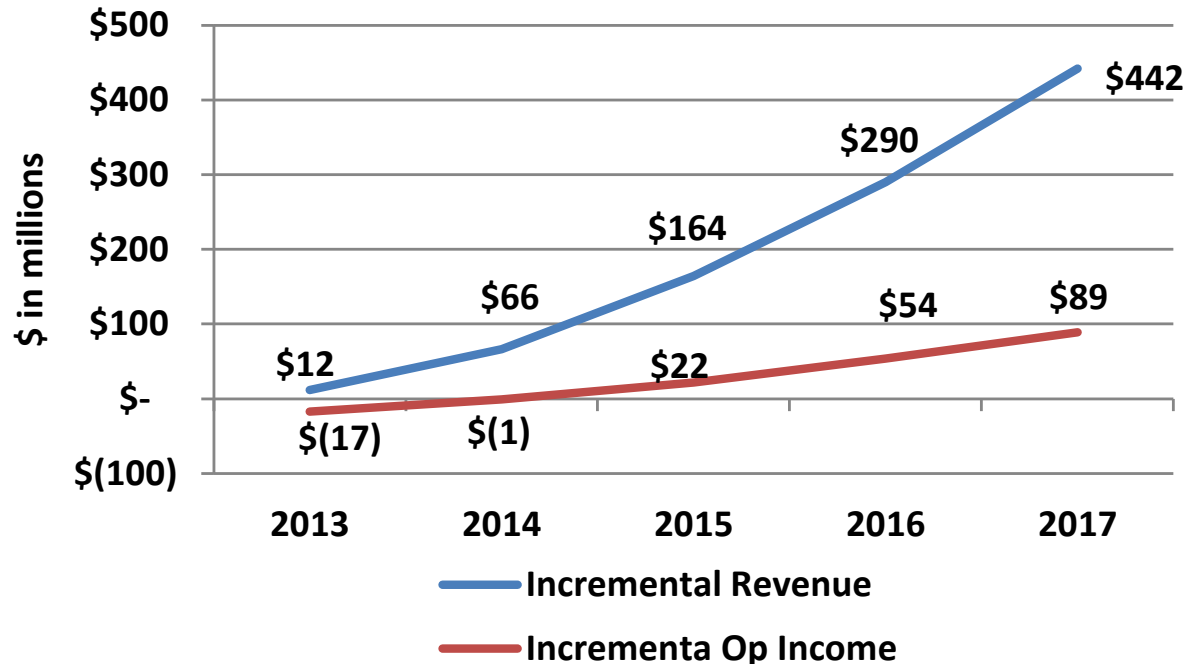


Forthcoming employee testimonial: “Selling is what I do and I have the skills and tools to be good at it”

DRIVING NEW VALUE WITHIN ODP – NEW ENGAGEMENT MODEL

Our changes will transform the customer relationship with ODP from “Order Taking” to “Solution Selling”

Revenue and Operating Profit Impact



Assumptions:

- Implementation begins in 2013
- Improved engagement model entices increasing proportion of customers across all channels to shop more frequently
- By 2017, 20% of ODP's customer base increase transaction frequency (1 additional transaction per year)
- Gross margin rate and basket size is equal to current base to isolate impact of other initiatives

Previous opportunities	\$503 million
+ New Engagement Model	\$ 89 million
Cumulative opportunity	\$592 million



Forthcoming employee testimonial: “Selling is what I do and I have the skills and tools to be good at it”

Key action levers to achieve benchmark performance include:

Key Action Levers	Details
Institutionalize a selling culture	<ul style="list-style-type: none"> • Implement customer selling and engagement model • Align store labor model and schedule to emphasize customer engagement
Deploy best-in-class sales processes and tools	<ul style="list-style-type: none"> • Implement daily sales tracking and scorecards • Provide additional sales training to all associates
Provide employees with instant access to product and customer information	<ul style="list-style-type: none"> • Provide an integrated access to data across all channels
Align incentives to solution selling	<ul style="list-style-type: none"> • Implement sales incentives which encourage broader solution selling <ul style="list-style-type: none"> – Example: Creating an ink replenishment solution instead of simply selling ink cartridges
Make employees customer segment aware and able to provide tailored solutions	<ul style="list-style-type: none"> • Implement customer segmentation • Develop unique segment value propositions

DRIVING NEW VALUE WITHIN ODP – TRUE OMNI-CHANNEL PRESENCE

In the new ODP Omni-Channel model, associates will have real-time, in depth knowledge of individual customers in order to better serve them regardless of channel

Evidence of Problem

- Online performance lagging those of industry leaders
- Low presence of SMB in customer mix
- Difference customers have different channel preferences:

Segment	Head of household	Home Office	Office base 1-5 emp	Office base 6-24 emp	Multi-loc 25-75 emp	National, Global
Preferred Channels	Store, Web, Mobile	Store, Web, Mobile	Store, Web, Mobile	Store, Web, Catalog	Web, Catalog, Account	Integrated Web, Account
Relationship Construct	Loyalty Program, Club	Loyalty + Subscription, Club	Loyalty + Subscription, Club	Contract + Subscription, Club	Contract + Subscription, Personalized	Contract, Integration, Personalized

Key Action Levers

- Customer experience in all channels will be uniquely tailored to their needs and preferences
- ODP employees will have full visibility to customer history, open orders and preferences when interacting
- Organizational focus and capabilities will be customer-centric rather than product- or channel-centric
- Incentives aligned with omni-channel strategy

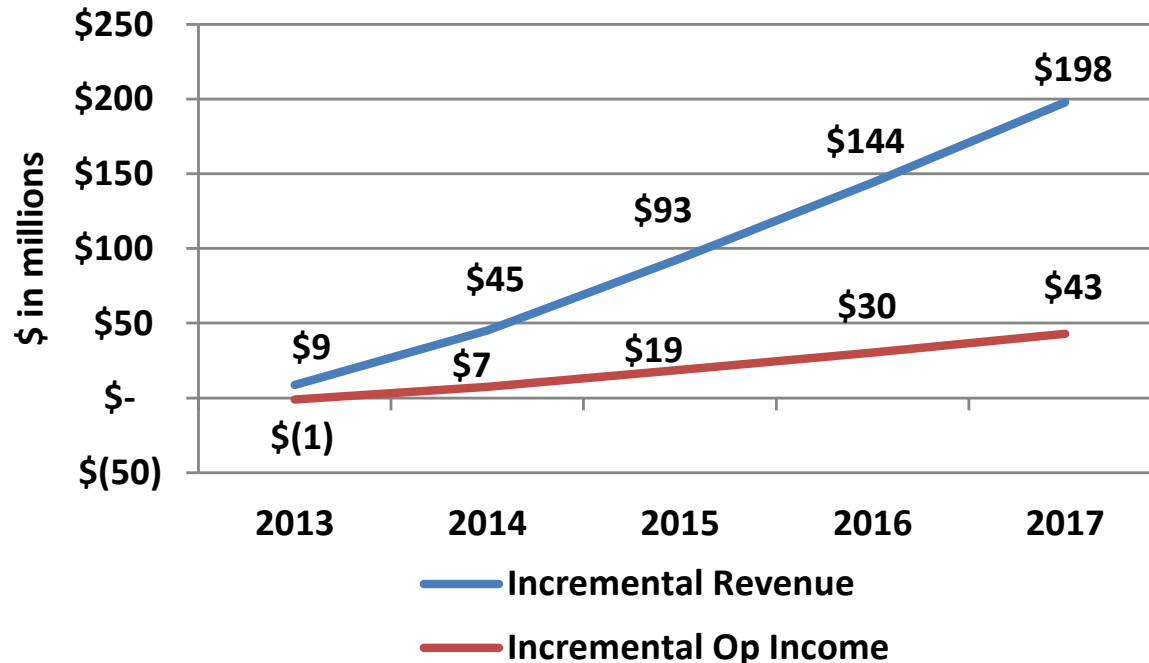


Forthcoming customer testimonial: “I see a reflection of my business in every interaction with ODP, regardless of channel”

DRIVING NEW VALUE WITHIN ODP – TRUE OMNI-CHANNEL PRESENCE

In the new ODP Omni-Channel model, associates will have real-time, in depth knowledge of individual customers in order to better serve them regardless of channel

Revenue and Operating Profit Impact



Assumptions:

- Implementation begins in 2013
- Improved omni-channel experience entices customers to increase spend (personalization and recommendation drives transaction size)
- 20% of customers are positively impacted by omni-channel resulting in 10% increase in average order value

Previous opportunities	\$592 million
+ Omni-Channel	\$ 43 million
Cumulative opportunity	\$635 million



Forthcoming customer testimonial: “I see a reflection of my business in every interaction with ODP, regardless of channel”

DRIVING NEW VALUE WITHIN ODP – TRUE OMNI-CHANNEL PRESENCE

Key action levers to achieve benchmark performance include:

Key Action Levers	Details
Customer experience in all channels will be uniquely tailored to their needs and preferences	<ul style="list-style-type: none">• Implement tailored customer engagement model based on segmentation
ODP employees will have full visibility to customer history, open orders and preferences when interacting	<ul style="list-style-type: none">• Implement real time customer information capability
Organizational focus and capabilities will be customer-centric rather than product- or channel-centric	<ul style="list-style-type: none">• Implement customer segmentation• Design customer-specific value propositions• Create a mindset focused on fulfilling customer needs rather than selling products features
Incentives aligned with omni-channel strategy	<ul style="list-style-type: none">• Create a consistent incentive structure across all channels
Expand online market share	<ul style="list-style-type: none">• Develop an effective web strategy to compete more effectively with SPLS / OMX and other major online retailers with presence in the office supply market, e.g., Amazon.com and Costco

DRIVING NEW VALUE WITHIN ODP – NEW LOYALTY PROGRAM

The new ODP loyalty program is simple to understand, convenient to use, and drives increased shopping frequency and spend

Evidence of Problem

- NPS scores and customer interviews demonstrated that there is little loyalty in this industry, and customers would be willing to increase their frequency of purchase if the company offered clear and consistent value

Key Changes

- Create an industry-leading customer loyalty program that is easy to understand and easy to use
- Debit card based
- Better visibility into customer behavior and subsequent tailoring
- The reinvention could include expansion to various business model:
 - Private label debit cards
 - Advantaged pricing for members
 - Clubs
 - Group rates on common SMB purchases like vehicles and insurance

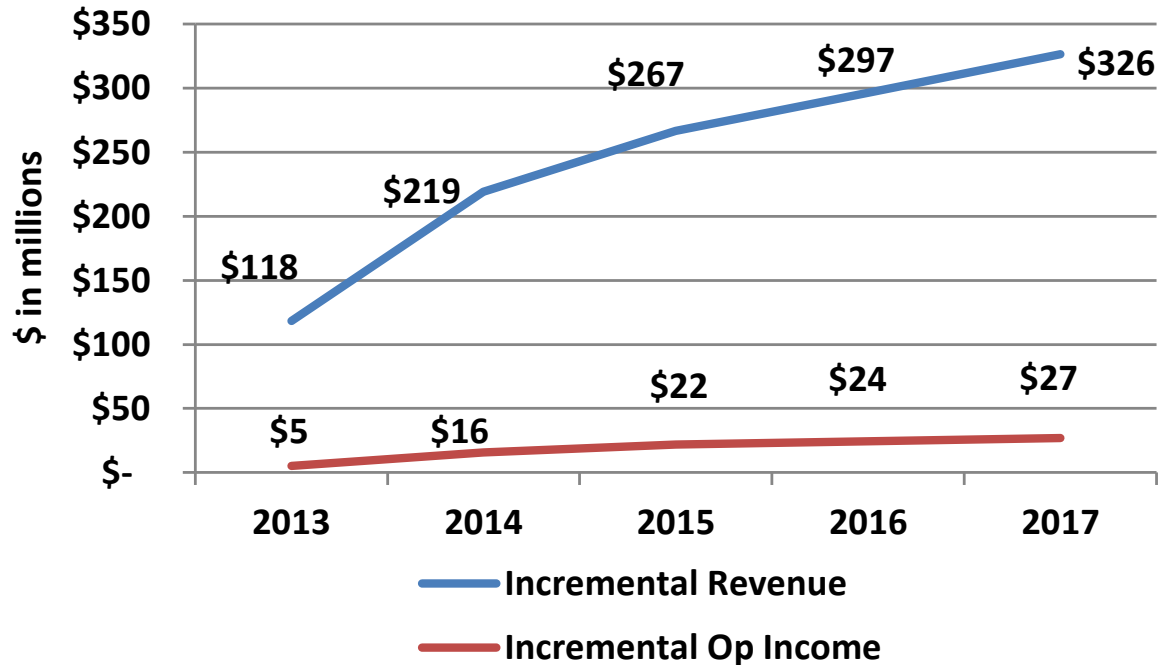


Forthcoming customer testimonial: “Being rewarded for my loyalty is effortless”

DRIVING NEW VALUE WITHIN ODP – NEW LOYALTY PROGRAM

The new ODP loyalty program is simple to understand, convenient to use, and drives increased shopping frequency and spend

Revenue and Operating Profit Impact



Assumptions:

- Implementation begins in 2013
- By 2017, 33% of SMB and 15% of Consumers will enroll in the program
- Planning assumption: average order value will increase by 15% and transaction count will increase by 12.5%
- The program will offer customers with a 5% pricing incentive
- 5% of customer attrition can be avoided

Previous opportunities	\$635 million
+ Loyalty Program	\$ 27 million
Cumulative opportunity	\$662 million



Forthcoming customer testimonial: “Being rewarded for my loyalty is effortless”

Key action levers to achieve benchmark performance include:

Key Action Levers	Details
Create an industry-leading customer loyalty program that is easy to understand and easy to use	<ul style="list-style-type: none"> • Eliminate points and redemption process • Implement standard percent off all purchases
Debit card based	<ul style="list-style-type: none"> • Implement an Office Depot-branded debit card
Better visibility into customer behavior and subsequent tailoring	<ul style="list-style-type: none"> • Capture detailed purchase data unique to each customer • Implement personalized promotions and campaigns based on the captured data

Previous loyalty programs from other leading retailers have led to increased sales of 30~40%

DRIVING NEW VALUE WITHIN ODP – SERVICE / CATEGORY EXTENSIONS

ODP will add key adjacent products/services to increase their share of the customers' spend

Evidence of Problem

- Percent of sales in services and high margin products is low compared to major competitors and industry leaders

Key Changes

- Enter / accelerate adjacent categories with growing demand among SMB's
- Focus on subscription-based services to create lasting customer relationships

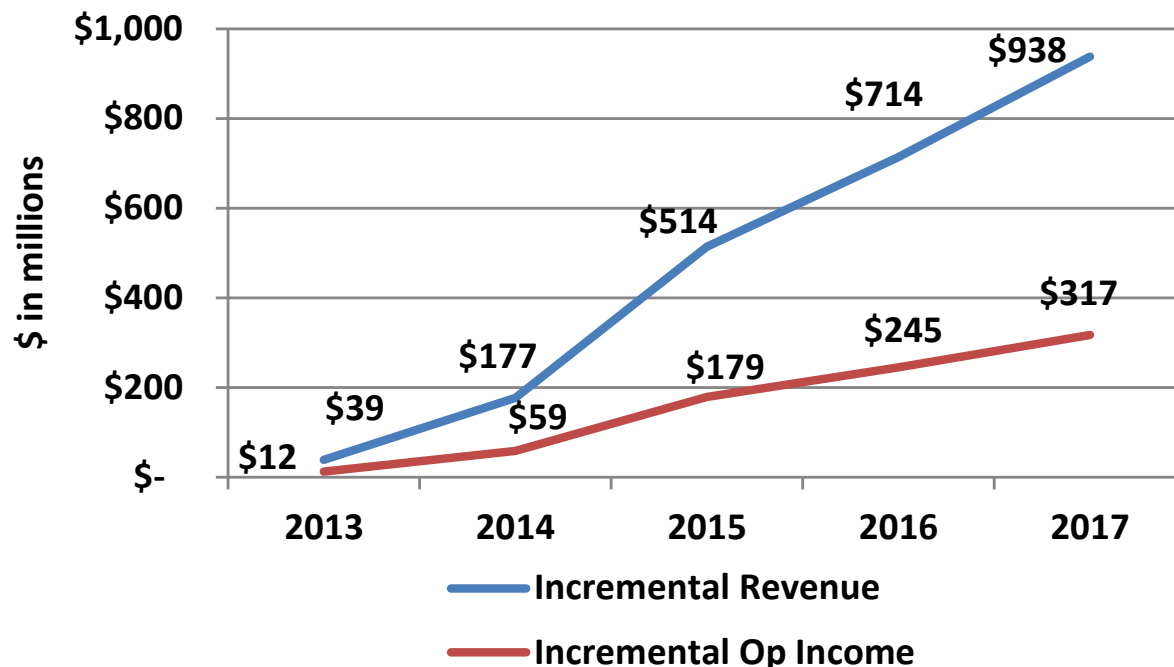


Forthcoming customer testimonial: "My office is anywhere I am and Office Depot is at my fingertips"

DRIVING NEW VALUE WITHIN ODP – SERVICE / CATEGORY EXTENSIONS

ODP will add key adjacent products/services to increase their share of the customers' spend

Revenue and Operating Profit Impact



Assumptions:

- Implementation begins in 2013
- Mobile/smart phone sales growing to 2 units/day/store
- Convert 4% of ODP's SMB customer base to comprehensive subscription-based tech support model
- Have 50,000 printers/copiers (toner/paper) under a replenishment arrangement
- Capture 13.3% of the SMB Office Design spend

Previous opportunities	\$662 million
+ Service/Cat. Extension	\$317 million
Cumulative opportunity	\$979 million



Forthcoming customer testimonial: "My office is anywhere I am and Office Depot is at my fingertips"

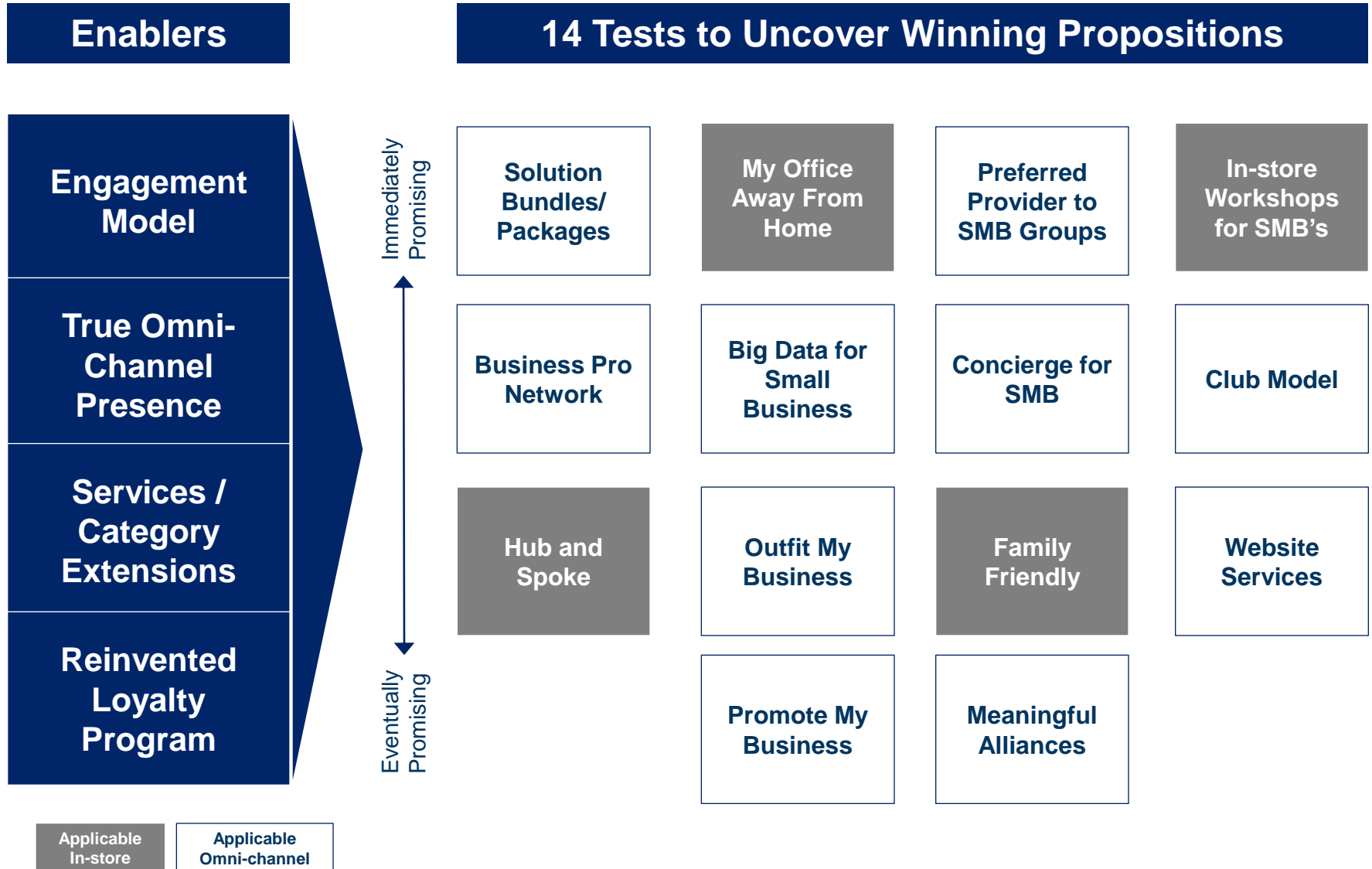
DRIVING NEW VALUE WITHIN ODP – SERVICE / CATEGORY EXTENSIONS

Key action levers to achieve benchmark performance include:

Key Changes	Details
Enter / accelerate adjacent categories with growing demand among SMB's	<ul style="list-style-type: none">• Mobile phones and activation in store<ul style="list-style-type: none">– Partner with mobile service providers to provide activation service in store in addition to selling mobile phones• Expand managed print solutions in U.S.<ul style="list-style-type: none">– Accelerate and expand managed print services in existing and new SMB/corporate accounts• Offer office design services<ul style="list-style-type: none">– Develop office design services to complement and expand office furniture product offering• Expanded network of partner service offerings that address key pain points<ul style="list-style-type: none">– Develop a network of 3rd party value-add service partners to provide adjacent solutions, e.g., insurance, travel and accounting, to SMB's
Focus on subscription-based services to create lasting customer relationships	<ul style="list-style-type: none">• Develop recurring revenue stream through subscription-based services to SMB's, e.g. technical support

DRIVING NEW VALUE WITHIN ODP

In addition to addressing the enablers, ODP must immediately begin conducting tests to determine customer and market acceptance



Description of concepts to be tested

Solution Bundles/ Packages

- Provide complete solution bundles at package pricing
- In-store and online

Today ODP does not easily allow the customer to visualize and understand all the pieces and parts that make a complete solution. ODP can create visual displays in store and online, along with checklists, supported by helpful advice and recommendations, to make any purchase more complete. This supports the Respect My Time value proposition, and if the solution bundle/package contains a promotional discount, also addresses Reward Me (could be linked to Loyalty Program).

My Office Away From Home

- In-store office space
- Demonstrate solutions
- Capture product and service needs

Convert excess space into working space for professionals who need a space to work – whether just to get out of the house or while they are traveling. Outfit the space with office furniture that the professionals can purchase (funded by the vendors), WiFi, high-quality video conference capabilities, and secretarial services. The professional can easily access printing/copy and shipping services, and pick up any supplies needed. Technical support is also available. Space and secretarial services can be rented, with discounts for members of the loyalty program.

Preferred Provider to SMB Groups

- National and local partnerships
- Networking
- Co-marketing/promotion

ODP has the opportunity to partner with professional and networking organizations that serve SMB's to become the preferred provider of business-oriented solutions. Imagine a national group like Ernst & Young's Entrepreneur of the Year program, or the myriad local organizations represented in every market ODP serves. Through this effort, ODP can promote the organization in store and online, and likewise, the organization can promote ODP.

In-store Workshops for SMB's

- Educate SMB's
- Networking
- Traffic and engagement

ODP will promote sessions for local professionals to help customers understand critical topics for running their business, like accounting basics, records retention, critical legal issues, professional networking. These local professionals could be suppliers to ODP, and their services could be paid through ODP's POS system. While in-store, SMB's can pick up supplies for all their needs, and learn about additional services available through ODP's network.

DRIVING NEW VALUE WITHIN ODP

Description of concepts to be tested

Business Pro Network

- Appointment-based access to professionals
- Legal, insurance, marketing, tech support

Small businesses and entrepreneurs often don't have the resources and access to expertise that larger companies provide. The Business Pro network, an appointment-based service in store and online, offers access to a screened network of experts in incorporation, insurance, web design, marketing and technical support that can help you as needed, or on an ongoing basis. Since the service is billed through ODP, you qualify for rewards points and special offers.

Big Data for Small Business

- Customer, industry and macro trends
- Knowledge and insight to make the SMB as smart as the large businesses

Large businesses have internal and external data available to them which, when analyzed effectively, gives them a competitive advantage in understanding markets, customers, trends, and disruptors. Big Data for Small Business offers customer, industry, and macro trends that provide the knowledge and insights to micro, small and medium businesses through a web portal subscription, for a fee or as a benefit of a loyalty program.

Concierge for SMB

- Personal solution assistant
- Commission-model

Introducing "Your Concierge" from ODP, your personal solution assistant that is there to advise and support your ever changing needs. The Concierge works on a commission basis, and is your advocate for finding the solution that fits within your budget.

Club Model

- Access to exclusives and group rates
- Day-in-day-out savings

SMB's are worried about their bottom line, don't have spare time, and they need peace of mind that they are not overpaying since it's coming directly out of their pocket. They do some homework here and there but ultimately gravitate to a pattern that they do not have to overthink. For a modest annual fee, the small SMB would get many perks that larger accounts get (guaranteed discounts, free delivery, pooled resources, etc.) Most importantly, they would get a comprehensive assortment of office supplies and equipment with day-in-day-out savings so they no longer have to go from place to place looking for the best option.

Description of concepts to be tested

Hub and Spoke

- Club-like model
- Courier delivery for urgent needs
- Fulfilled from central store location

Business customers prefer to do most of their business supplies, equipment and services online and/or with a preferred supplier (with or without an account). But every need isn't predictable and some stuff can't wait for a 1-2 day delivery. If ODP scales back stores, the customer would still have an *immediate* fulfillment option that would get them the same pricing discounts/rewards that they get with direct fulfillment. They could go to a centralized hub location or have it couriered to their office – whatever option was preferred. For a small annual fee and participation in the loyalty program, the customer the customer would be entitled to a set number of emergency deliveries.

Outfit My Business

- Office design
- Solution upsell
- Branded alliances (e.g., IKEA, Pottery Barn)

Available in-store and online, ODP will provide appointment-based access to a professional designer (DesignPro), who will visit your office location (or at an ODP store) to discuss your needs and design the right environment for you. From office furniture, to the perfect break room, to the technical infrastructure required to operate your business, the DesignPro can pull together options and pricing. Furniture options could include product from non-traditional partners, like Ikea or Pottery Barn.

Family Friendly

- Scrapbooking/crafts
- Stay and play, while parents take care of business

Convert excess space into a family friendly zone, which encourages kids and their parents to be creative. Partner with Archivers to provide scrapbooking and crafts items. Classes and events can be scheduled to encourage interaction with other families. SMB Parents can take advantage of services which can be scheduled to coincide with the kids' classes, including meetings with professionals (legal, tax, etc.) as well as printing, shipping and technical support. Bring your tablets and smartphones to download the latest family friendly apps.

Website Services

- Develop customized websites
- Domain name registration

Develop partnerships with leading online service providers to enable ODP to assist SMB's in developing their website and e-commerce capabilities. Help SMB's to register domain name, build and maintain website, and e-commerce platform

DRIVING NEW VALUE WITHIN ODP

Description of concepts to be tested

Promote My Business

- Setup your web and social networking
- Online/in-store network to connect small businesses

Most small businesses need help when they are starting out with website design, logo creation, and business cards. But how do they get word out to their target customers that they are in business? ODP can help by creating an in-store and online network to help businesses connect to each other, with localization, reviews/recommendations, and if services are selected, rewards can be offered to the buyer, paid by the seller, with a referral fee to ODP to maintain the network. Events can be hosted in store and online.

Meaningful Alliances

- Category partnerships
- Brand enhancement

ODP can expand options available to its customers and increase its brand perception by forging productive alliances with other brands. Imagine Ikea furniture available in-store and online or Archivers for scrapbooking and craft related products. ODP should pursue only those relationships which augment their positioning as the solution provider to SMB's, or address underutilization of space or expanded online assortment requirements. This should augment existing offerings, or be a preferred outsource where internal capabilities to manage the category are inefficient or non-existent.

-
- ODP needs to focus on SMB as the target customer
 - Sustaining the current operating model will not address the SMB's needs
 - There are four transformational enablers that ODP must address to set the stage for growth
 - There is room in the industry for a new player who will change the game to serve the SMB needs across all channels

ODP needs transformation, not just optimization

NEW REAL ESTATE STRATEGY

- Our initial analysis suggests that converting current stores to medium size format has much better chances of success, and will be accretive to ODP's profitability

All \$ figures are in thousand except square footage & \$/sqft

	Current Store ⁽¹⁾	Medium Format Store
<i>Square foot</i>	23,000	15,000
<i>Revenue / Sqft</i>	\$175	\$267
Revenue impact	\$4,000	\$4,000
Gross margin ⁽²⁾⁽³⁾	\$960	\$1,028
Operating expenses ⁽⁴⁾⁽⁵⁾	\$727	\$694
Operating profit	\$233	\$334
<i>Operating profit margin</i>	5.8%	8.4%
Total operating profit impact per converted store		\$101

Notes:

- Source: ODP's 10-K SEC filing for 2012, and transcript of Q3, 2012 ODP Earnings Conference Call on November 6, 2012
- Includes Distribution costs
- Assume same COGS %, and savings in rent of \$68K per store per year, due to smaller store footprint and rent increase of \$16/sqft to \$20/sqft
- Excludes Distribution costs
- Labor cost savings due to smaller footprint and SKU reduction is assumed to average 0.75 FTE for medium stores (~33K/year)

NEW REAL ESTATE STRATEGY – REPLACE LARGE STORE WITH 2 OR MORE SMALLER/MEDIUM STORES IN SELECTED LOCAL MARKETS

- In markets with high customer density, it may be advantageous to have two or more smaller stores instead of one giant store
 - Proximity to more customers in the area
 - More flexibility in planning store layouts, product assortments, and promotions
 - Better engagement with customers, better customer experience
- However, as shown in our earlier analysis, the small store approach may not be financially beneficial if applied to a large number of stores
 - Target stores must be judiciously selected, cost-benefit trade-offs thoroughly analyzed, and the conversions carefully planned and executed in order to reap the benefit offered by the small store model

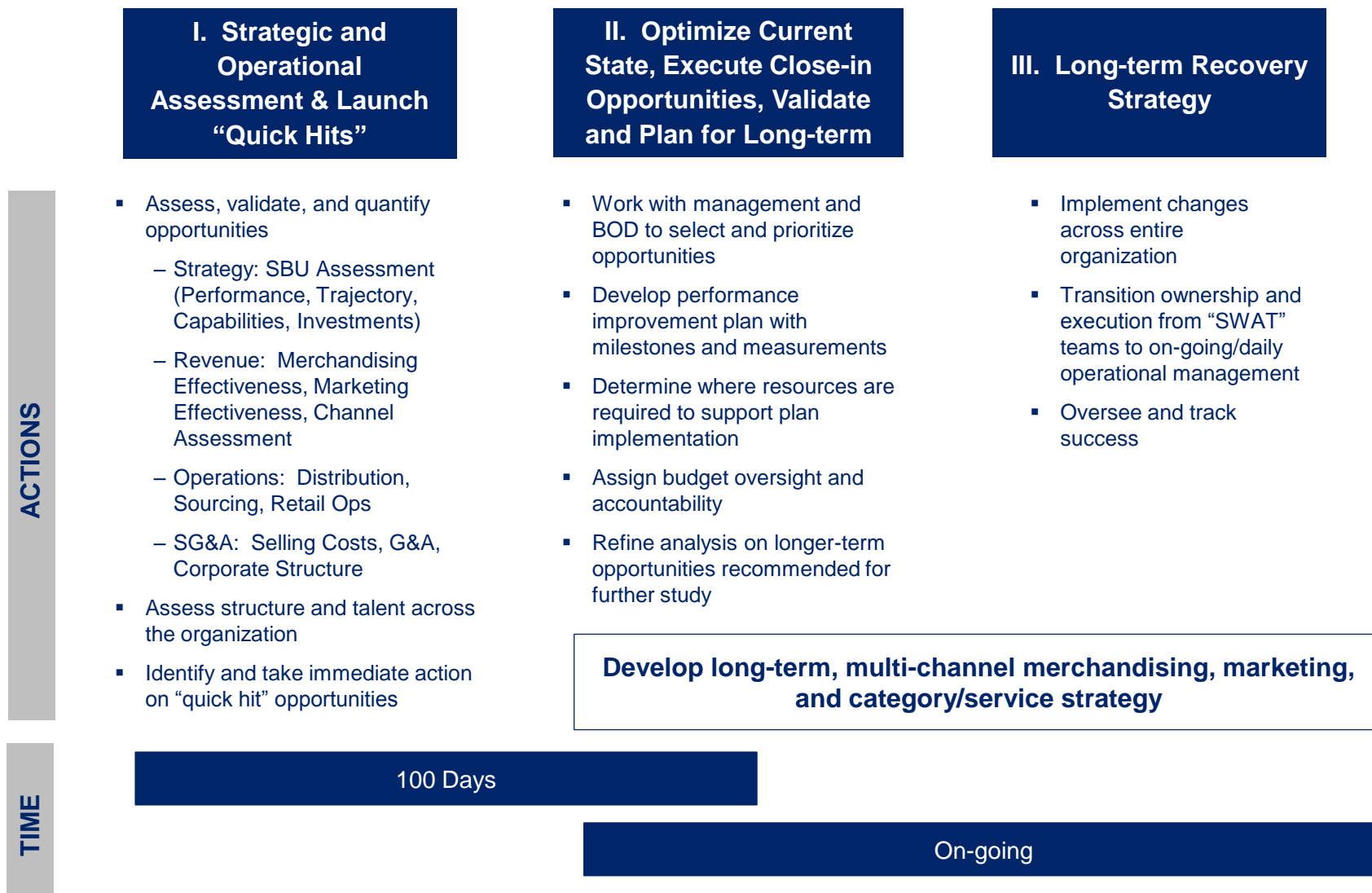
NEW REAL ESTATE STRATEGY – ALLOCATE PART OF THE LARGE STORE FOOTPRINT TO FULFILL ONLINE ORDERS

-
- For large stores with long-term leases, part of the store may be converted to warehouses to fulfill local online orders
 - Exploit “comparative” fulfillment advantage based on proximity to customers
 - Better (in terms of time and cost) able to fulfill next-day/same-day, delivery orders for local customers
 - This can be leveraged to compete with online retail giants such as Amazon
 - Improved customer availability for both in-store and online fulfillment

100 DAY PLAN

OUR PLAN IS URGENT – WE INTEND TO ACHIEVE RUN-RATE VELOCITY WITHIN 12-18 MONTHS

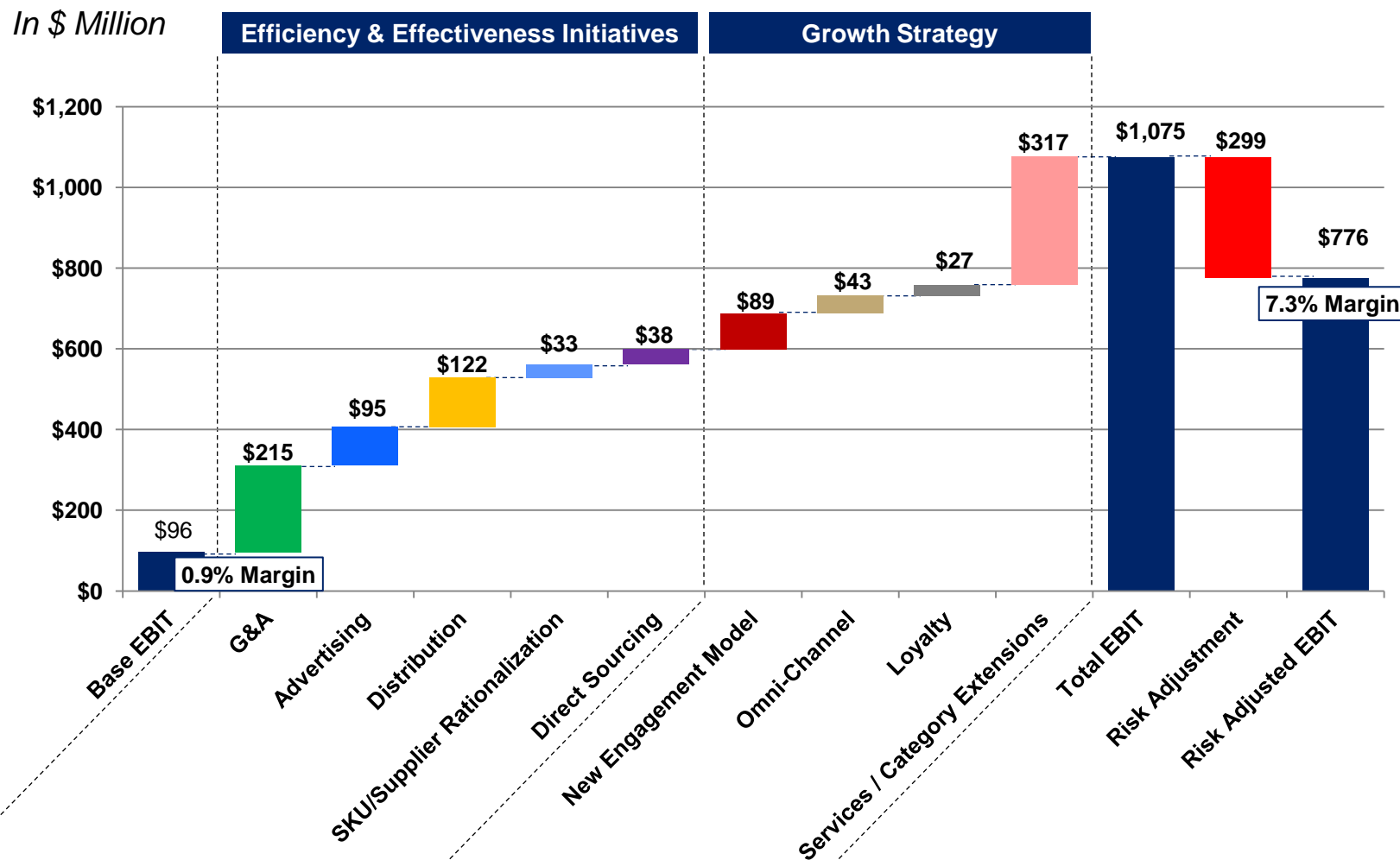
Subsequent planning and implementation work will follow the initial 100 Days that will be required to achieve run rate savings within a 12 to 18 month time frame



TOTAL MARGIN IMPROVEMENT OPPORTUNITIES

After implementing our plan, we believe that ODP has the opportunity to achieve \$776 million in annual EBIT (7.3% margin) after full implementation of the Efficiency & Effectiveness Initiatives and the Growth Strategy

Annual EBIT Run Rate After Full Implementation

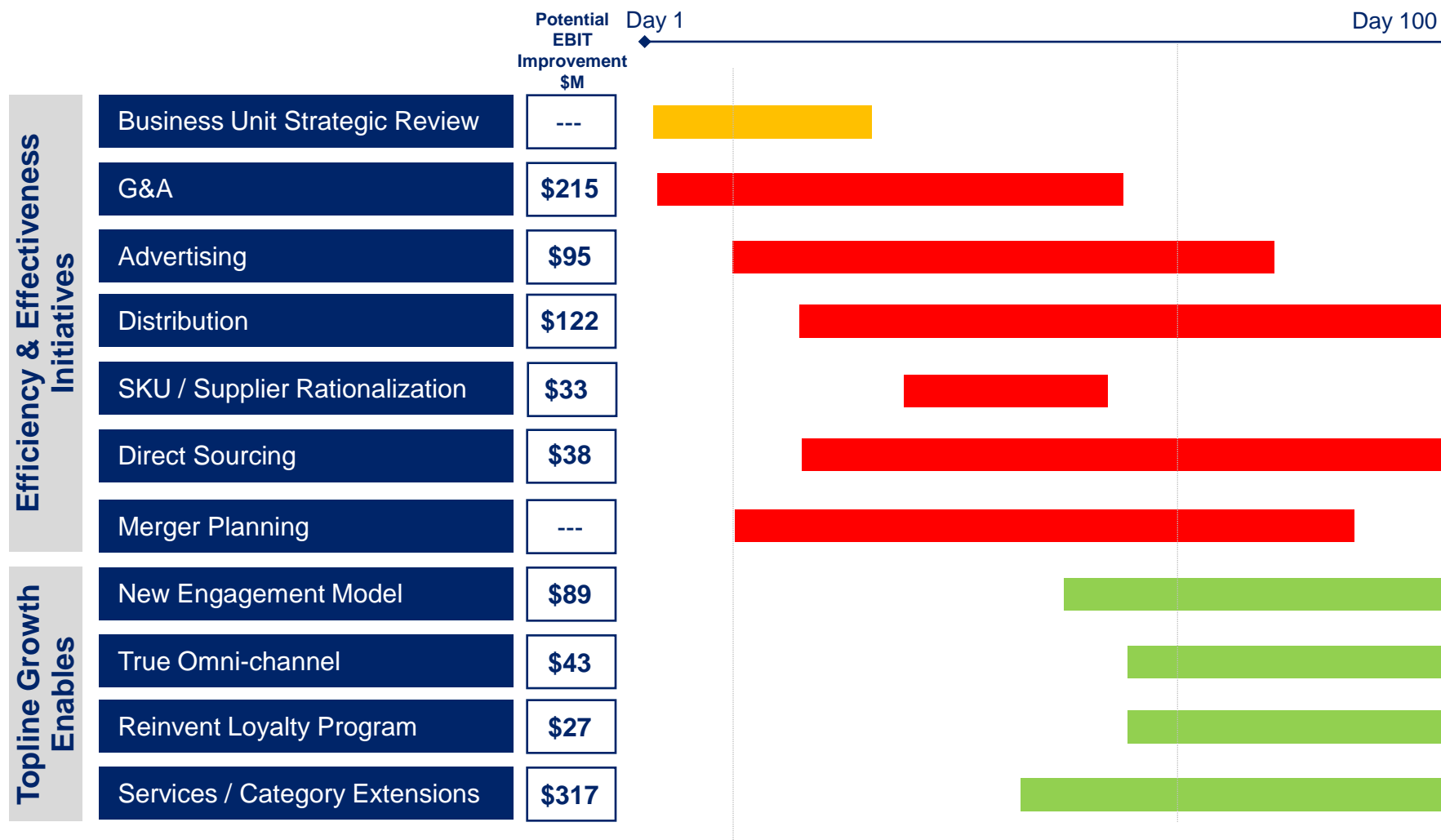


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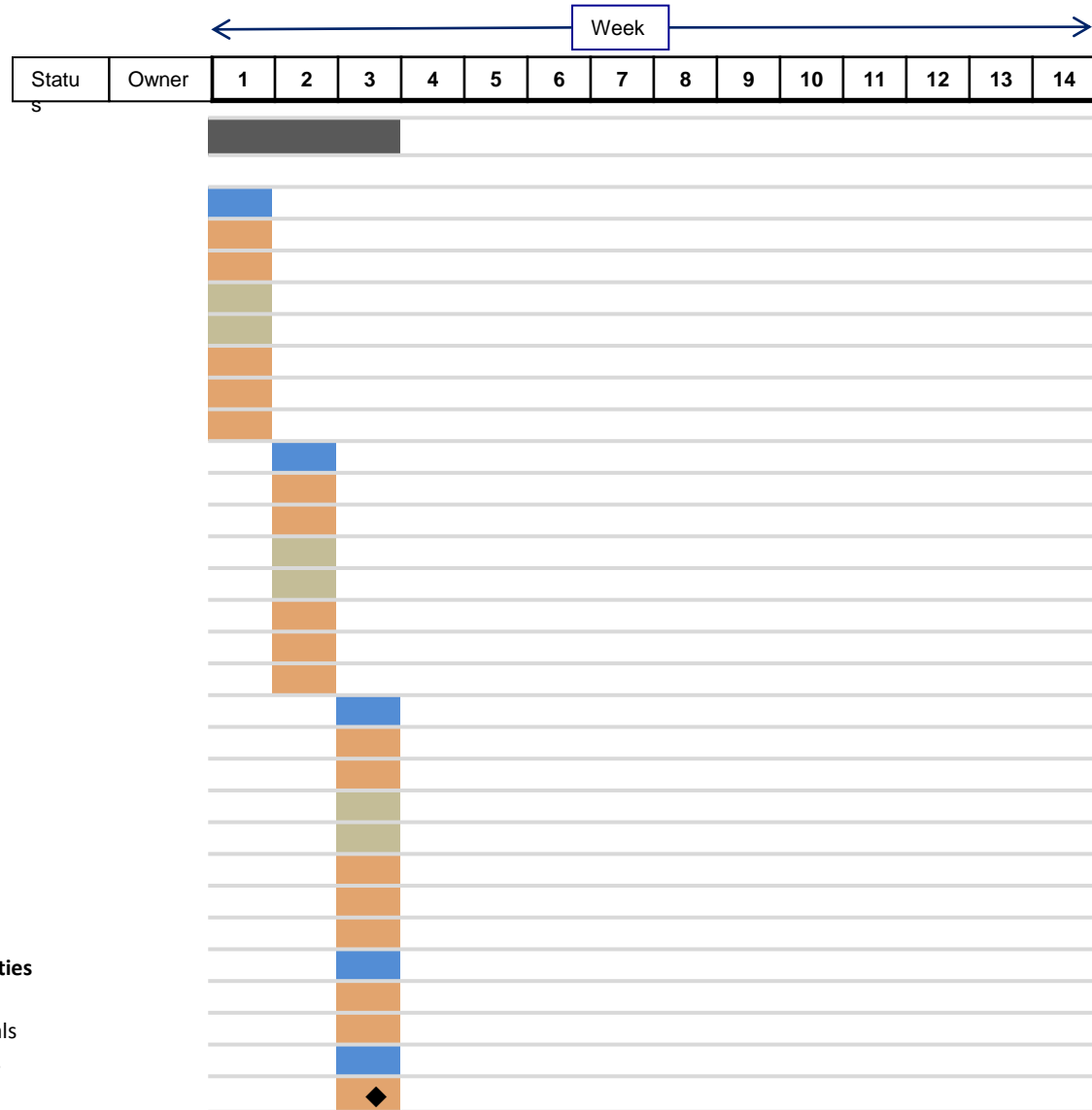
1) Based on ODP 10-K for 2012

SUMMARY LEVEL PLAN

The work plan is aligned against the business case objectives and organized by our major efficiency & effectiveness initiatives and the strategic growth enablers

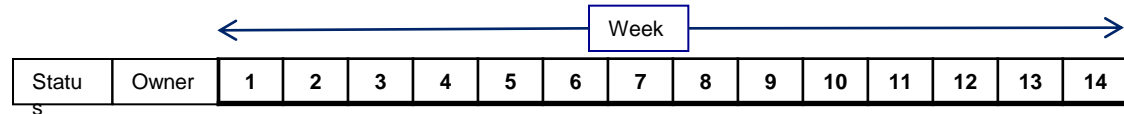


DETAILED LEVEL PLAN



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DETAILED LEVEL PLAN



G&A

Review current investment portfolio

Capital and Expense

IT new development

Store capital - Open, Close, Reset

Web

Other

Build revised/realigned Investment Portfolio

Assess internal general and administrative data

Review financials

Validate against hypothesis

Prioritize focus areas based on assessment

Functional within Business Unit

Web site and supporting functions

BSD-Retail Cross-functional synergies

Assess key non-merch vendors and suppliers

Assess Corp Organizational structure

Management talent / capability

Prioritize focus areas based on assessment

Cross-functional synergies

Talent / capability gaps

Review HR policies and practices

To meet regulatory requirements

Understand HR Corp strategy and Organization

Review key HR employee contracts / agreements

Review Compensation and Benefits

Understand current benefits plans and contract terms

Inventory health and wellness plans - employees and retirees

Understand financial and legal obligations

Develop strategy to rationalize and optimize benefits policies, plans and terms

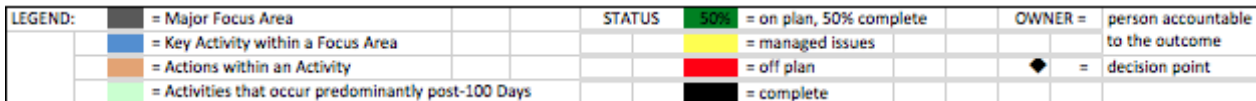
Define org structure, reporting relationships, roles and responsibilities

Rationalize corp titles, functions, and job descriptions

Rationalize BU titles, functions, and job descriptions

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STARBOARD VALUE®

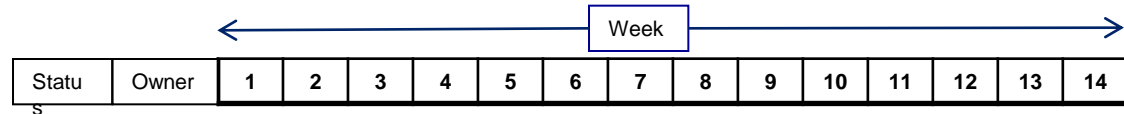


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DETAILED LEVEL PLAN



Store Model - U.S. Footprint

Assess store performance of various models/sizes current deployed

- Against competition
- Customer perception of each
- Risk adjust based on length of time in market
- Validate against hypothesis
- Against potential new business strategies
- Include customer research in assessment

Define near term plan to maximize store effectiveness

- By format in context of performance and lease
- Excess space scenarios
- Build out options for excess space
- Cost Benefit analysis for space options
- Prioritize changes
- Implement quick hit changes
- to achieve quick hit improvements

Define mid-term excess space options

Scorecard and Measure

- Escalate variances

Store Model - U.S. New Store Opening

Assess NSO (New Store Opening) capability

- Review current NSO process
- Against external benchmark
- By store size
- Go-No go decision based on magnitude of cost take-out

Create action plans to reduce capital per NSO

- Cost reduction workout exercise
- Revised NSO capital and expense targets

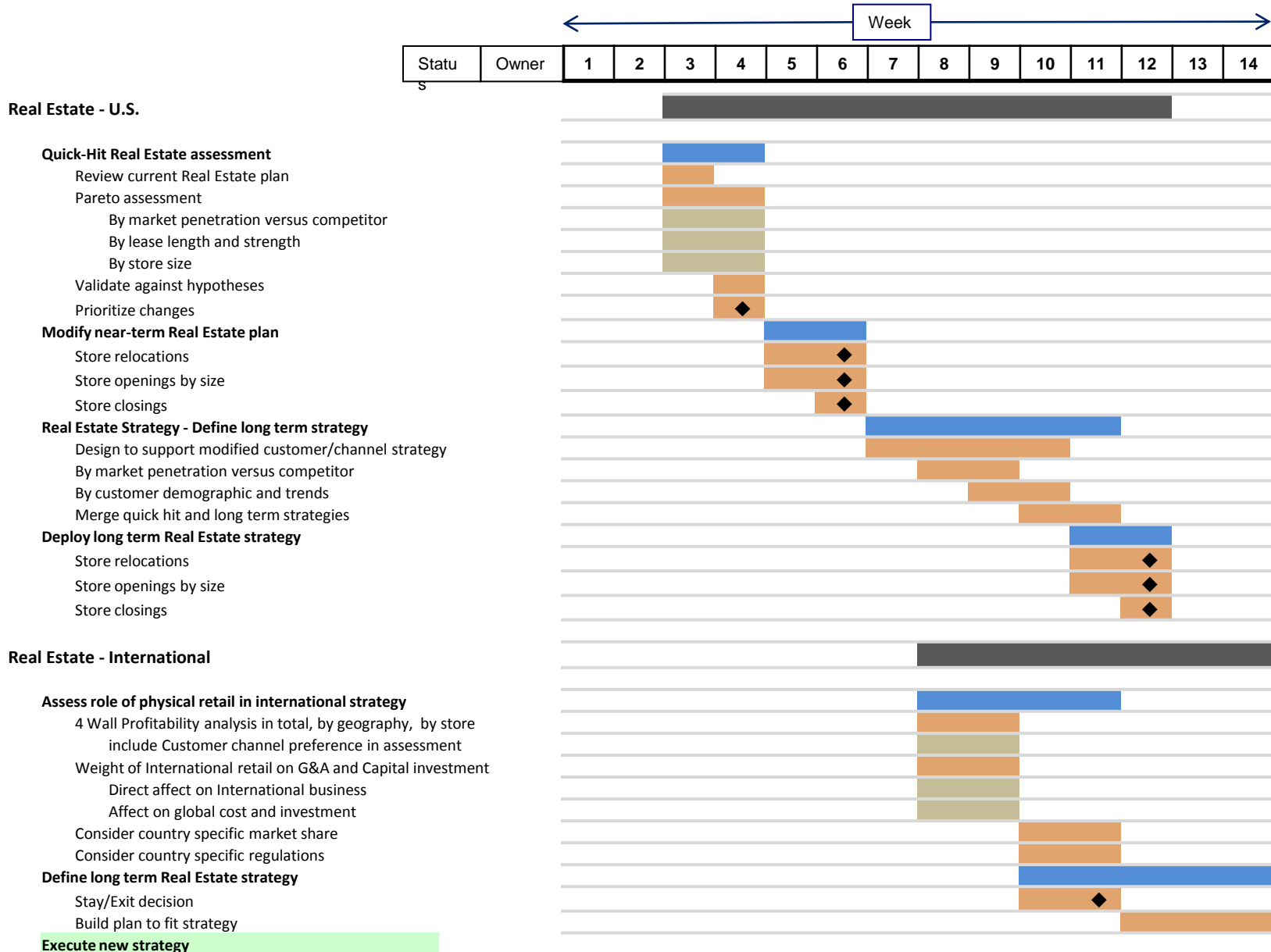
Deploy new NSO process and cost structure

Measure NSO cost reductions to target

- Escalate variances
- Make adjustments to attain results

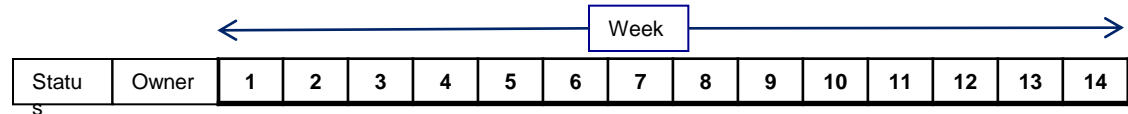
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DETAILED LEVEL PLAN



Distribution

Assess Physical Supply Chain

DC and Transportation Network Design

Transportation

Inbound from Supplier

DC and Direct to Store

Reverse Logistics

Carrier Management

Distribution

Receiving, Putaway, Picking, Fulfillment

Cross Docking

Supplier Operational Compliance

Direct to Customer - Web and Store sales

Store Operations

Scheduling, Receiving, Merchandising

Returns Processing

Delivery

Benchmark current Delivery network

Design Revamped Delivery model

Reverse logistics

Assess Inventory Management

Inventory Planning and Execution

Demand and Lead time Forecasting

Order Cycle, Replenishment, Special Orders

Assess Merchandise Planning & Analysis

Sales, Margin, and Inventory

Markdown Planning and Execution

Open-to-Buy

Create action plans and assess cost benefit of each

Prioritize by \$ and emerging biz strategy

Implement quick hit changes

Project team by major deliverable

Measure Distribution improvement/cost reduction

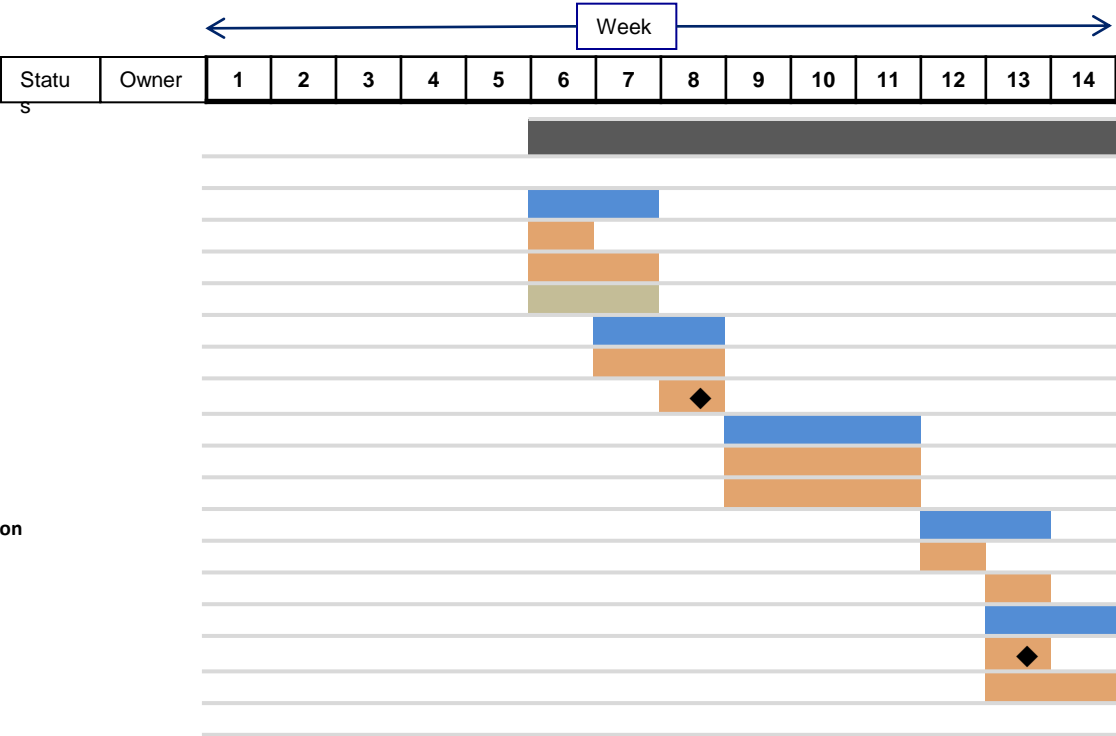
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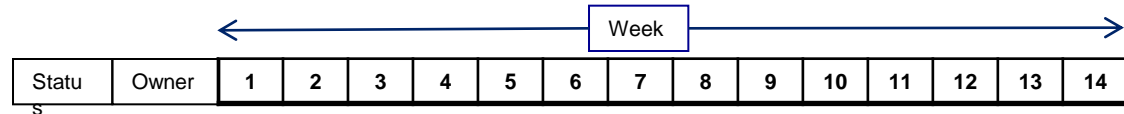
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DETAILED LEVEL PLAN



Merger Planning and Preparation

External Assessment of Merger Partner

- Similar Diligence Process to ODP Assessment
- Research to Understand Current Customer
- Validate Assumptions in Merger Business Case

Assess Strategic Considerations

- Brand and Strategic Positioning
- Consumer and SMB Customer
- Validate Business and Financial Value of Merger
- What is Precious and What is Expendable

Organization and Talent Considerations

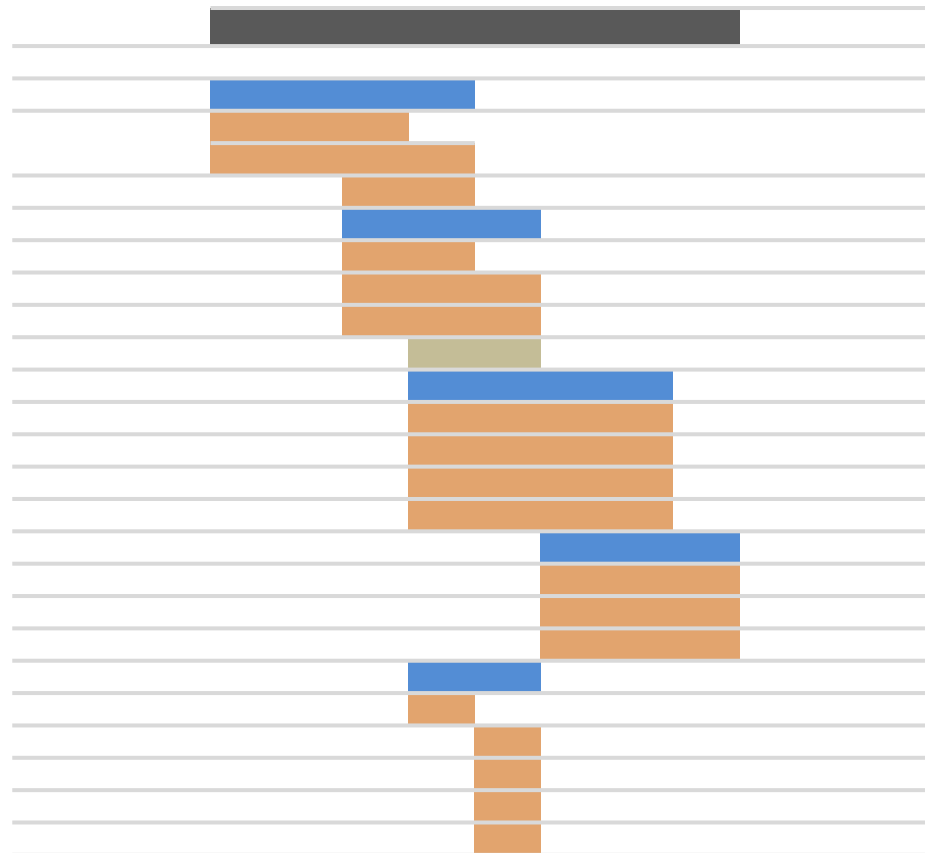
- Leadership Structure
- Organizational Structure
- Leadership Talent Assessment
- Metrics, Goals, Incentive Plans during Transition

Business Process Considerations - Initial View

- Accelerators and Barriers
- Business Capabilities to Support Merger
- Technology Capabilities to Support Merger

Tactical Investment Considerations

- New Store Openings
- Distribution Network
- Marketing and Branding and Advertising
- Web Site Capability and Systems Investments
- BSD Change Initiatives currently Underway



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DETAILED LEVEL PLAN

		Week													
Statu	Owner	1	2	3	4	5	6	7	8	9	10	11	12	13	14

Engagement Model

Assess Sales Effectiveness

- BSD selling model
- Retail selling model
- Validate against hypotheses
- Compensation and incentive model
- Services delivery effectiveness
 - Internally delivered
 - 3rd Party delivered

Assess Customer Support

- By channel
- By Customer segment

Design new Engagement model

- BSD Sales Leadership
- Retail selling model
- Compensation model
- Field execution model
- Platform to support sales effectiveness
 - Define requirements
 - Select platform
- Define and build Quick Hits

Implement Quick Hits

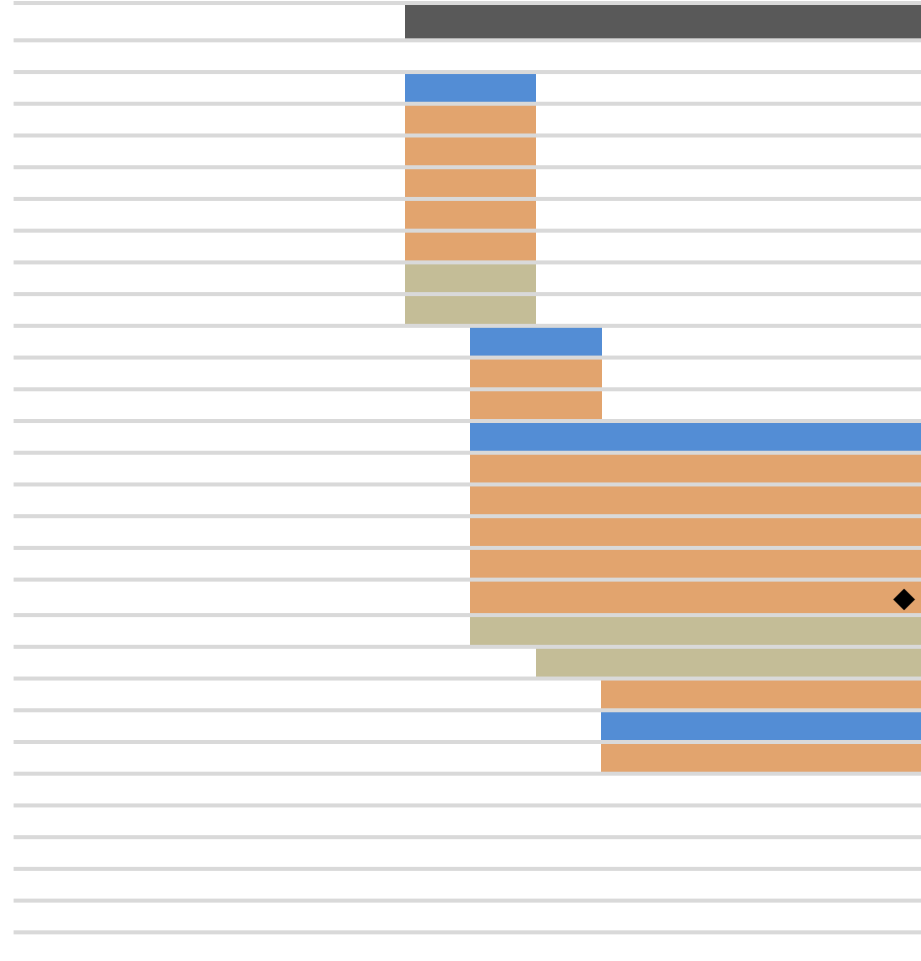
- Incremental to current engagement model

Implement new engagement model

- Define pilot approach
- Deploy new engagement model to pilot
- Change Management program to support

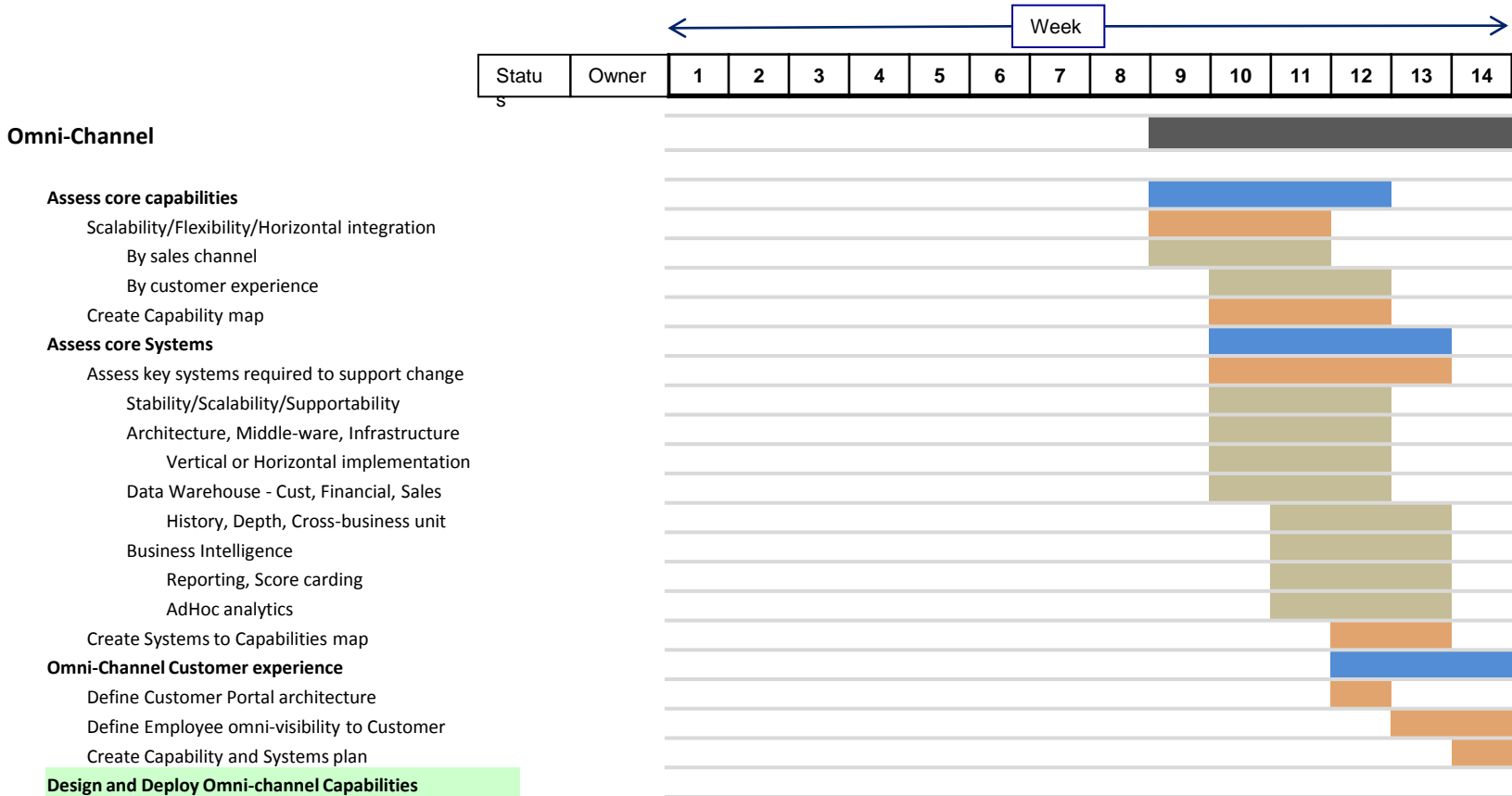
Measure Engagement model pilot

Scale new Engagement model



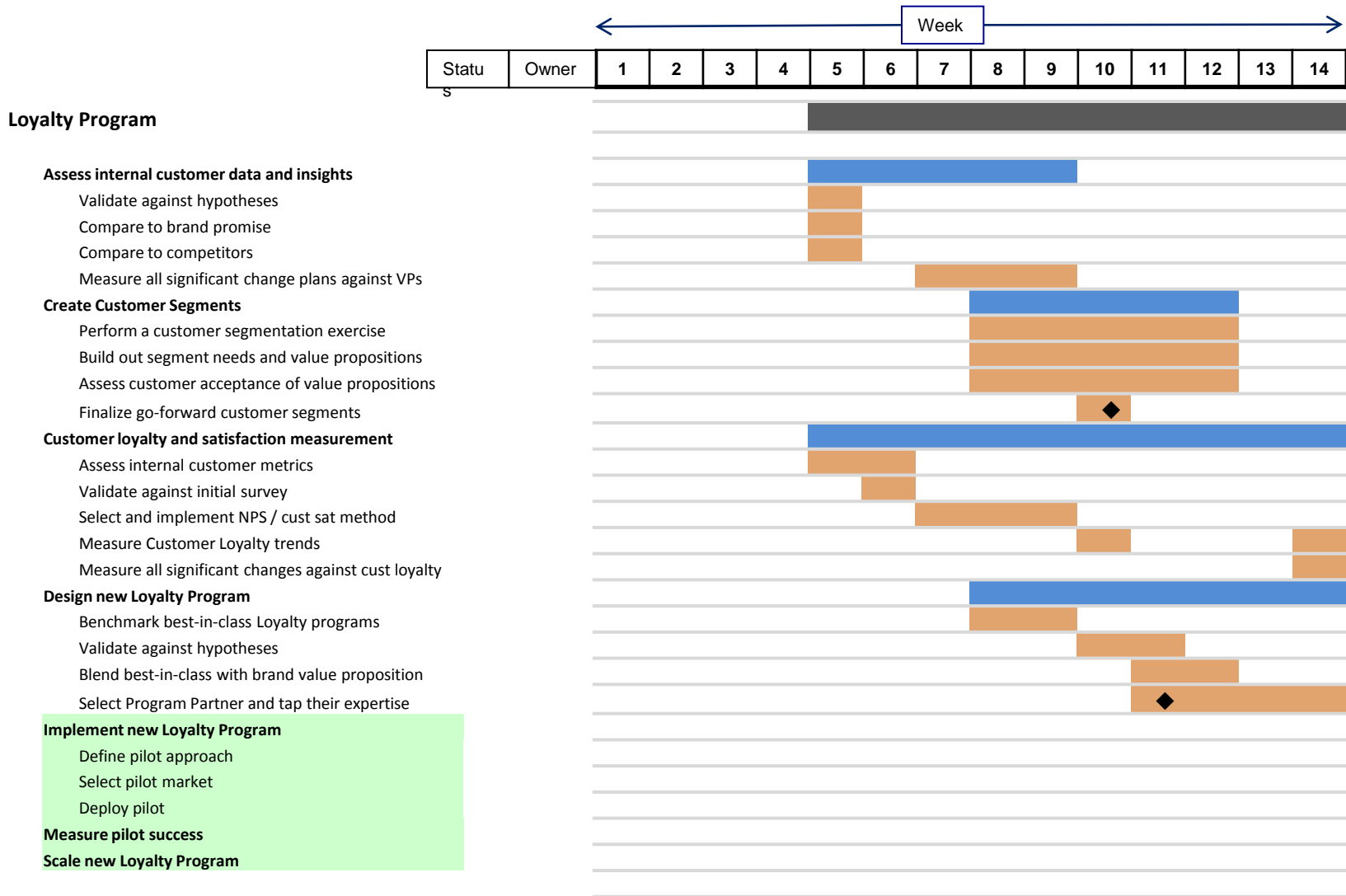
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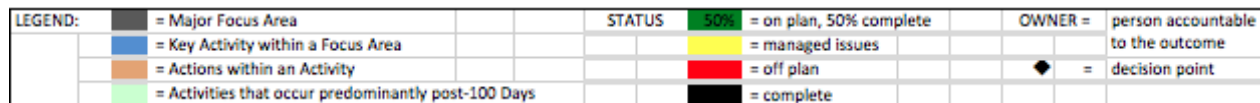
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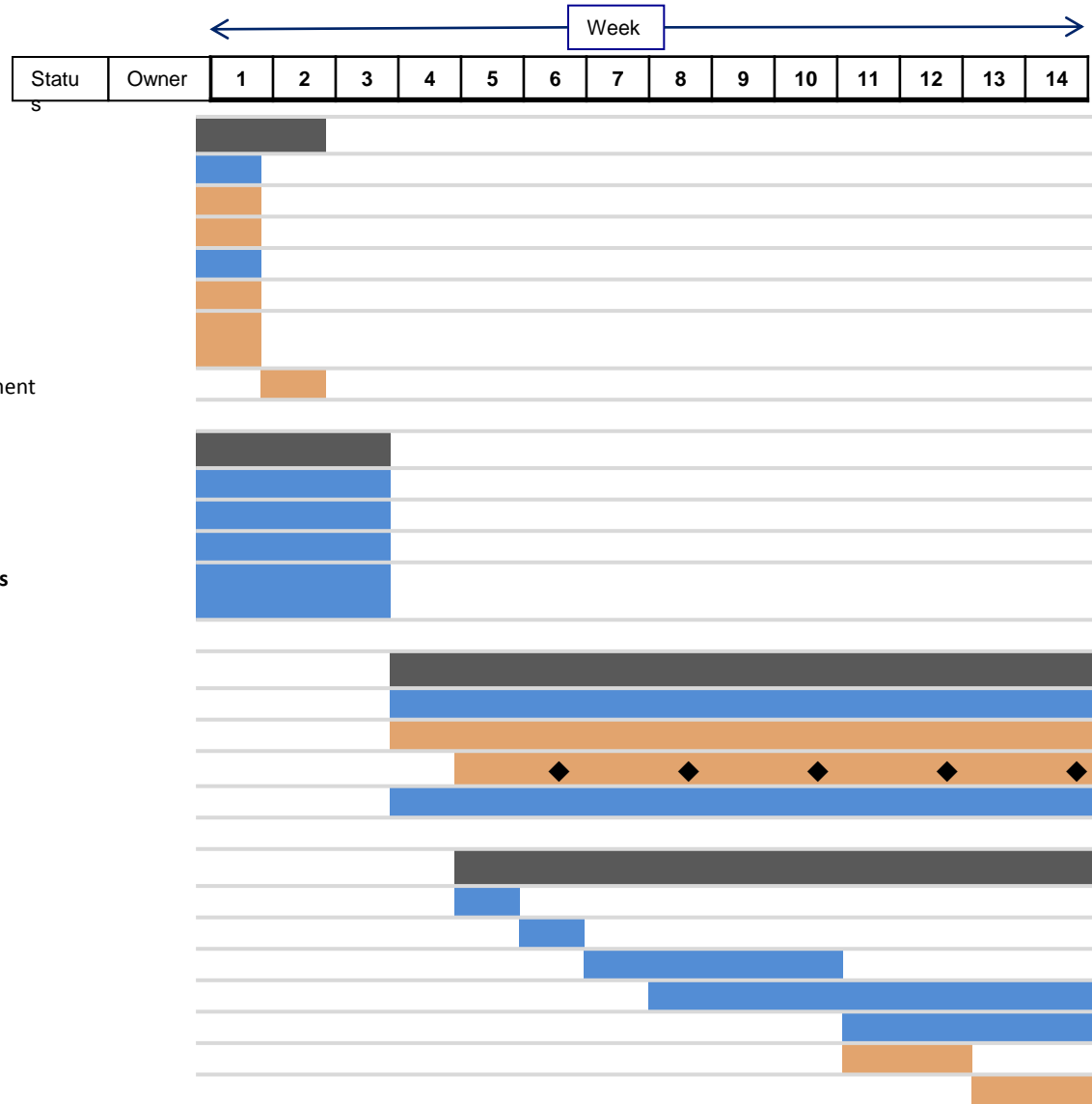


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THE END