

OFFICE DEPOT INC
Form 10-K
February 27, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the fiscal year ended December 29, 2018

Or

Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number 1-10948

Office Depot, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	59-2663954 (I.R.S. Employer Identification No.)
6600 North Military Trail, Boca Raton, Florida (Address of principal executive offices)	33496 (Zip Code)

(561) 438-4800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	NASDAQ Stock Market

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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes
No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files): Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer" "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	Accelerated filer	Non-accelerated filer
Smaller reporting company	Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of common stock held by non-affiliates of the registrant as of July 1, 2018 (based on the closing market price of the common stock on the Composite Tape on June 29, 2018) was approximately \$1,397,561,637 (determined by subtracting from the number of shares outstanding on that date the number of shares held by affiliates of the registrant).

The number of shares outstanding of the registrant's common stock, as of the latest practicable date: At February 18, 2019, there were 540,977,359 outstanding shares of Office Depot, Inc. Common Stock, \$0.01 par value.

Documents Incorporated by Reference:

Certain information required for Part III of this Annual Report on Form 10-K is incorporated by reference to the Office Depot, Inc. definitive Proxy Statement for the registrant's 2019 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days after close of the registrant's fiscal year.

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PART I

Forward-Looking Statements

This Annual Report on Form 10-K for the fiscal year ended December 29, 2018 (“Annual Report”) contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Reform Act”), that involve risks and uncertainties. These forward-looking statements include both historical information and other information that can be used to infer future performance. Examples of historical information include annual financial statements and the commentary on past performance contained in Part II — Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”). While certain information has specifically been identified as being forward-looking in the context of its presentation, we caution you that, with the exception of information that is historical, all the information contained in this Annual Report should be considered to be “forward-looking statements” as referred to in the Reform Act. Without limiting the generality of the preceding sentence, any time we use the words “estimate,” “project,” “intend,” “expect,” “believe,” “anticipate,” “continue” and similar expressions, we intend to clearly express that the information deals with possible future events and is forward-looking in nature. Certain information in our MD&A is clearly forward-looking in nature, and without limiting the generality of the preceding cautionary statements, we specifically advise you to consider all of our MD&A in the light of the cautionary statements set forth herein.

Much of the information in this Annual Report that looks towards future performance of Office Depot, Inc. and its subsidiaries is based on various factors and important assumptions about future events that may or may not actually come true. As a result, our operations and financial results in the future could differ materially and substantially from those we have discussed in this Annual Report. Significant factors that could impact our future results are provided in Part I — Item 1A. “Risk Factors” included in this Annual Report. Other risk factors are incorporated into the text of our MD&A, which should itself be considered a statement of future risks and uncertainties, as well as management’s view of our businesses. We assume no obligation (and specifically disclaim any such obligation) to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

In this Annual Report, unless the context otherwise requires, the “Company,” “Office Depot,” “we,” “us,” and “our” refer to Office Depot, Inc. and its subsidiaries.

Item 1. Business

The Company

We were incorporated in the state of Delaware in 1986 and opened our first retail store in Fort Lauderdale, Florida on October 9, 1986. Since then, we have become a leading provider of business services and supplies, products and technology solutions through our fully integrated business-to-business (“B2B”) distribution platform of 1,361 retail stores, online presence, and dedicated sales professionals and technicians to retail consumers and small, medium and enterprise businesses, all supported by our world-class supply chain facilities and delivery operations. Through our banner brands Office Depot®, OfficeMax®, CompuCom® and Grand & Toy®, we offer our customers the tools and resources they need to focus on their passion of starting, growing and running their businesses.

Our long-term strategy to deliver customer-focused value through our integrated B2B distribution platform is founded on three strategic pillars:

TRANSFORM our business	STRENGTHEN our core	DISRUPT for our future
Acquisition of CompuCom	Superior customer experience	E2E Business Services Platform
Value-added services growth	Low cost business model	New routes to market
Retail transformation	Product innovation	Analytics Excellence / AI

At December 29, 2018, our operations are organized into three reportable segments (or “Divisions”): Business Solutions Division, which we also refer to as BSD, Retail Division and the CompuCom Division. The CompuCom Division was formed after the acquisition of CompuCom Systems, Inc. (“CompuCom”) on November 8, 2017. Additional information regarding our Divisions and operations in geographic areas is presented in Part II — Item 7. “MD&A” and in Note 5. “Segment Information” in the Notes to Consolidated Financial Statements located in Part IV — Item 15. “Exhibits and Financial Statement Schedules” of this Annual Report.

Our common stock is traded on the NASDAQ Global Select Market under the ticker symbol ODP.

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Acquisitions

Over the last two years, we have been undergoing a strategic transformation to pivot Office Depot into an integrated B2B distribution platform, with the objective of expanding our product offerings to include value-added services for our customers and capture greater market share. As part of this transformation, we acquired CompuCom in 2017, as further described herein, and an enterprise IT solutions integrator and managed services provider in 2018. The latter gives us access to a platform for selling or providing Internet of Things (“IoT”) related hardware and projects to the education market. IoT refers to the connection of intelligent systems and devices to allow them to automatically share information so that systems and devices work intelligently together to develop and enhance solutions and reduce human intervention.

To strengthen our core operations, over the last two years we have also expanded the reach of our distribution network by identifying and acquiring profitable regional office supply distribution businesses serving small and mid-market customers in geographic areas that were previously underserved by our network. This has allowed, and will continue to allow, for an effective and accretive means to expand our distribution reach, target new business customers and grow our offerings beyond traditional office supplies.

The operating results of these companies are combined with our operating results subsequent to their purchase dates. The operating results of the acquired businesses are included in the Business Solutions Division, whereas the operating results of CompuCom and the enterprise IT solutions integrator and managed services provider are included in the CompuCom Division. Refer to Note 2. “Acquisitions” in the Notes to Consolidated Financial Statements for additional information.

Fiscal Year

Our fiscal year results are based on a 52- or 53-week calendar ending on the last Saturday in December. Fiscal year 2018 had 52 weeks and ended on December 29, 2018. Fiscal year 2017 had 52 weeks and ended on December 30, 2017. Fiscal year 2016 had 53 weeks and ended on December 31, 2016. Certain subsidiaries, including CompuCom, operate on a calendar year basis; however, the reporting difference did not have a material impact on 2018 and the other periods presented.

Business Solutions Division

Our Business Solutions Division provides its customers with nationally branded and our private branded office supply and adjacency products and services in the United States, Puerto Rico, the U.S. Virgin Islands, and Canada. Our customers are served through a dedicated sales force, catalogs, telesales, and electronically through our Internet websites. Adjacency products primarily include cleaning and breakroom supplies, technology and furniture and our service offerings are comprised of copy and print services, product subscriptions, and managed print and fulfillment services.

The Business Solutions Division is comprised of two main sales channels: contract and direct.

Our contract sales channel serves business customers including small, medium, and enterprise businesses as well as schools and local, state and national governmental agencies. We also enter into agreements with consortiums to sell to entities across many industries, including government and non-profit entities, in non-exclusive buying arrangements.

Our direct sales channel primarily serves small to medium-sized customers. Direct customers can order products through our Internet website, from our catalogs, or by phone. Website functionality provides customers the convenience of using the loyalty program and offers suggestions by product ratings, pricing, and brand, among other features. Customer orders are fulfilled through our common supply chain. See “Supply Chain” section below for additional information on our supply chain network.

Beginning 2017, we have implemented several initiatives to strengthen the core of our Business Solutions Division, including the following:

- expanding through strategic acquisitions that increase selling resources in the field, stretch our geographical reach, grow our small and medium customer segments, and increase our sales in the aforementioned adjacency categories
- focus on demand-generation via a shift to digital marketing and investment in our eCommerce presence
- realignment of our sales organization aimed at improving customer acquisition and retention trends
- adding dedicated selling and operational resources to drive sales in our adjacency categories
- partnering with key vendors to add new products to our assortment of offerings
- capturing cross-selling opportunities with CompuCom

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• increasing our focus on services, including growing current offerings in technology and print, and identifying new services that complement our existing product and fulfillment capabilities

Retail Division

The Retail Division markets a broad assortment of merchandise through our chain of retail stores throughout the United States, Puerto Rico and the U.S. Virgin Islands. The retail stores operate under both the Office Depot or OfficeMax brands, though systems, processes and offerings have converged. We currently offer products in three categories: supplies, technology, and furniture and other. See “Merchandising and Services” section below for additional information on our product categories. In addition, our Retail Division offers a range of business-related services targeted to small businesses, technology support services as well as printing, copying, mailing and shipping services. In addition, the print needs for retail and business customers are also facilitated through our regional print production centers.

At the end of 2018, the Retail Division operated 1,361 retail stores which includes locations temporarily closed for remodeling. We have a broad representation across North America with the largest concentration of our retail stores in Texas, California, and Florida. Most of our retail stores are located in leased facilities that currently average over 20,000 square feet. Beginning 2016, we have redesigned the layout of 106 stores to enhance our in-store experience through a curated assortment of products, better product adjacencies, easier navigation and signage, and increased space dedicated to expanded service offerings. To better serve our customers any way they choose to shop, we have a Buy Online-Pickup in Store offering in all locations and offer same-day store delivery in selected markets. Sales under these programs are serviced by store employees and fulfilled with store inventory and therefore are reported in the Retail Division results.

In May 2018, we introduced Workonomy™, a variety of business services married with “human touch” expertise to small and medium-sized businesses. The new Workonomy offering provides customers with enhanced tools and services as well as access to remote and in-person advisors and technical support, including tech services kiosks across 200 retail stores. Our Workonomy solutions also include payroll support, bookkeeping, storage and shredding, shipping and printing, and workspace planning and assembly services. We offer Workonomy business services on our eCommerce platform, in store, and through a dedicated sales team. In 2018, we also launched our first ever Workonomy integrated co-working space within one of our retail locations in Los Gatos, California.

In 2016, we announced the results of a comprehensive business review (the “Comprehensive Business Review”), which included the closure of up to 300 stores in North America over a three-year period, and the reduction of operating and general and administrative expenses through efficiencies and organizational optimization. Under the Comprehensive Business Review, we closed a total of 154 stores (19 in 2018, 63 in 2017 and 72 in 2016). We expect to close approximately 50 additional stores through the end of the program in 2019.

CompuCom Division

The CompuCom Division was formed after our acquisition of CompuCom Systems, Inc. on November 8, 2017. CompuCom provides information technology (“IT”) outsourcing services and products to enterprise organizations in the United States and Canada, and offers a broad range of solutions including end user computing support, managed IT services, data center monitoring and management, service desk, network infrastructure, IT workforce solutions,

mobile device management and cloud services.

CompuCom's unique capabilities allow us to enhance our service offerings and attract new customers. The minimal overlap between CompuCom's customer base and the customer base of our Business Solutions and Retail Divisions allows us to capture cross-selling opportunities by offering a full suite of products and services. We are leveraging our approximately 6,000 highly certified CompuCom technicians to serve our extensive small, medium-sized, and large enterprise business customers who require technical support.

Supply Chain

We operate a network of distribution centers (or "DCs") and crossdock facilities across the United States, Puerto Rico, and Canada, including two DCs which support the operations of CompuCom. Our DCs fulfill customer orders while crossdocks are smaller flow-through facilities where merchandise is sorted for distribution and shipped to fulfill the inventory needs of our retail locations. Our supply chain operations are also supported by a dedicated fleet of over 1,000 transportation vehicles. With our network of DCs, crossdocks, and vehicles, we are capable of providing next-day delivery services for approximately 98.5% of the population in the United States.

We continue to invest in our supply chain network, focusing on further enhancing our capabilities, increasing efficiency and lowering our costs. For example, we have grown our private fleet of transportation vehicles and introduced automated technology and robotics into our DCs and crossdock facilities. We have also installed new software that optimizes our network and allows us greater insight to our supply chain costs, providing us the ability to make better decisions and improve profitability. These investments position us to pursue opportunities beyond our traditional business, including utilizing our supply chain as a logistics service for third parties, including customers.

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Excluding the two DCs supporting the CompuCom operations, DC and crossdock facilities' costs, such as real estate, technology, labor, depreciation and inventory are allocated to the Retail and Business Solutions Divisions based on the relative services provided. For the two DCs supporting the CompuCom operations, these costs are included within the CompuCom Division.

We believe that inventory held in our DCs is at levels sufficient to meet current and anticipated customer needs. Certain purchases are sent directly from the manufacturer to our customers or retail stores. Some supply chain facilities and some retail locations also house sales offices, showrooms, and administrative offices supporting our contract sales channel.

As of December 29, 2018, we operated a total of 56 DCs and crossdock facilities in the United States and Canada. Refer to Item 2. "Properties" for further information.

Out-bound delivery and inbound direct import operations are currently provided by third-party carriers along with our own vehicles.

Merchandising and Services

Our merchandising and services strategy is to meet our customers' needs by offering a broad selection of nationally branded office supply and adjacency products, as well as our own private branded products and services. The selection of our private branded products has increased in breadth and level of sophistication over time. We currently offer products under such labels, including Office Depot®, OfficeMax®, Foray®, Ativa®, TUL®, Realspace®, WorkPro®, Brenton Studio®, Highmark®, and Grand & Toy®.

We generally classify our product offerings into three categories: (1) supplies, (2) technology, and (3) furniture and other. The supplies category includes products such as paper, writing instruments, office supplies, and cleaning and breakroom supplies. The technology category includes products such as toner and ink, printers, computers, tablets and accessories, and electronic storage. The furniture and other category includes products such as desks, seating, and luggage.

We classify our service offerings into two categories: (1) technology and (2) copy, print, and other. The technology category includes the technology service offerings provided through our CompuCom Division, such as end user computing support, managed IT services, data center monitoring and management, service desk, network infrastructure, IT workforce solutions, mobile device management and cloud services, as well as technology service offerings provided in our retail stores, such as equipment installation and repair. The copy, print, and other category includes offerings such as printing of business cards, banners, documents and promotional products, copying and photo services, managed print and fulfillment services, product and service subscriptions, and sales of third party software, gift cards, warranties, remote support as well as rental income on operating lease arrangements where the Company conveys to its customers the right to use devices and other equipment for a stated period.

Total Company sales by offering were as follows:

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	2018	2017	2016
Major products and services categories			
Products			
Supplies	42.7%	45.0%	46.1%
Technology**	31.5%	34.7%	35.8%
Furniture and other	10.4%	11.3%	10.0%
Services			
Technology**			