

Retail & Consumer Performance Improvement

2019

ALVAREZ & MARSAL

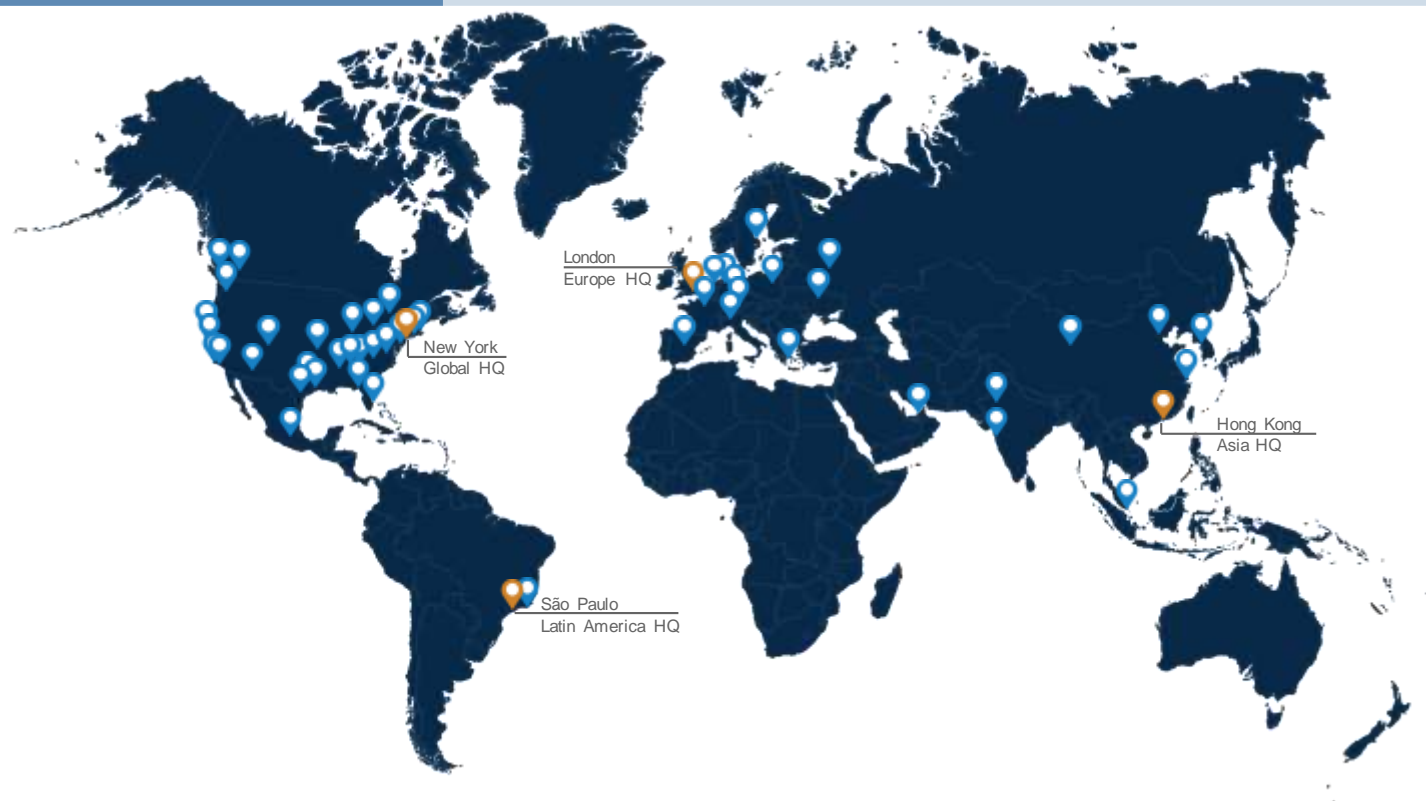


Why A&M?

A combination of retail/consumer operators and consultants, A&M helps retailers tackle the industry's most difficult challenges: Digital, Omni-channel, New Consumer Preferences, Hyper-Competition, Speed to Market, Reinvention of Customer Experience, and New Business Models.

- **Speed:** As a blend of experienced operators and consultants, we can quickly assess where the opportunities are, unlock quick wins and get organizations mobilized around high impact priorities.
- **Targeted and Transformational Implementation Support:** We have breadth and depth across the business, from customer analytics, merchandising, supply chain, sourcing, store operations and Omni to provide targeted solutions and/or more enterprise-wide transformation initiatives. *We get improvement implemented.*
- **Hands On Leadership / Interim Support.** We have a stable of experienced operators and can provide interim leadership across the business: CEO, CFO, COO, CIO, CMO, Supply Chain, Store Operations, Sourcing, etc.

A&M: A Global Professional Services Firm



50+ OFFICES

20+
COUNTRIES

3,000+
EMPLOYEES

FOUNDED
1983

OUR PEOPLE

Senior Leadership

- 400+ experienced Managing Directors

Dedicated Private Equity Service Practice

- 500+ Private Equity Services Professionals

OUR CLIENTS

200+ Mid-cap/Large-cap PE Firms

25% FTSE 100

60% Fortune 100

138+ Industries

OUR DIFFERENTIATORS

Integrated Full-service Solutions

Senior-led Team

Hands-on Approach to Problem Solving / Value Creation

Strong Operational Heritage

Free from Audit-based Conflicts

Our Retail Expertise in Areas of Change

A&M brings deep transformation expertise across the critical success factors driving retail and consumer companies.

Six major dimensions of change in Retailers

1. The Customer relationship	<ul style="list-style-type: none"> • Complex analytics (customer, market) • Marketing investment and ROI • The shift to digital marketing & communications • Online Partnerships • Customer engagement (instore, online) • Improving the customer journey / experience • Loyalty, ALTV 	4. Physical Space and Formats	<ul style="list-style-type: none"> • The decline of return on physical space • Real Estate advisory services • Understanding levers of GMROS • Modular ranging – integrating range and space • The new role of the store • Integrating physical and digital formats • Real Estate management • Exiting unprofitable locations or markets
2. The Operating Model	<ul style="list-style-type: none"> • Developing the future state operating model • The multichannel process model • The organisational structure and cost base • Talent and capabilities (digital, etc.) • Multichannel processes and KPIs • Business configuration (footprint) • Multichannel Analytics tools • Business reporting • Working capital management 	5. Platforms and Technology	<ul style="list-style-type: none"> • Website experience, the customer journey • Web sales, online • Mobile / Social integration • Data and Analytics • Data protection, cyber security • Technology – applications and architecture • Outsourcing – “Technology as a Service”
3. The Product and Service Offering	<ul style="list-style-type: none"> • Planning and forecasting by channel • Range architecture, online and in store • Sourcing and supplier management • Product and service segmentation / profiling • Private / White label product development • Understanding the customer experience • Promotions and supplier relationships • Channel / location / format 	6. The end to end Supply Chain	<ul style="list-style-type: none"> • Multichannel and fulfilment • Managing availability across channels • Home delivery models – owned and 3PL • Collaboration – CPFR • Forecasting and demand planning • The “Supply Chain Dividend” • Traceability • Distribution footprint optimisation models

All underpinned by our strong analytics capability
Legacy analytics – Big Data – 3rd Party integration – forecasting – dynamic pricing

A&M Retail Capabilities Summary

A&M has the experience and expertise to help retailers improve product productivity, transform “Design to Deliver” processes and deliver stronger operating and financial performance.

✓ **Dedicated Retail Team – Industry Operators and Seasoned Consultants**



✓ **Experience Across All Formats: Specialty, Off-price, Big-Box, Wholesale, etc.**



⇒ **Drive Product Productivity - Transform All Functions - “Concept to Customer”**

⇒ **Improve Margin Performance, Lower Operating and Overhead Costs**



✓ **Rigorous Analytics To Drive Decisions**



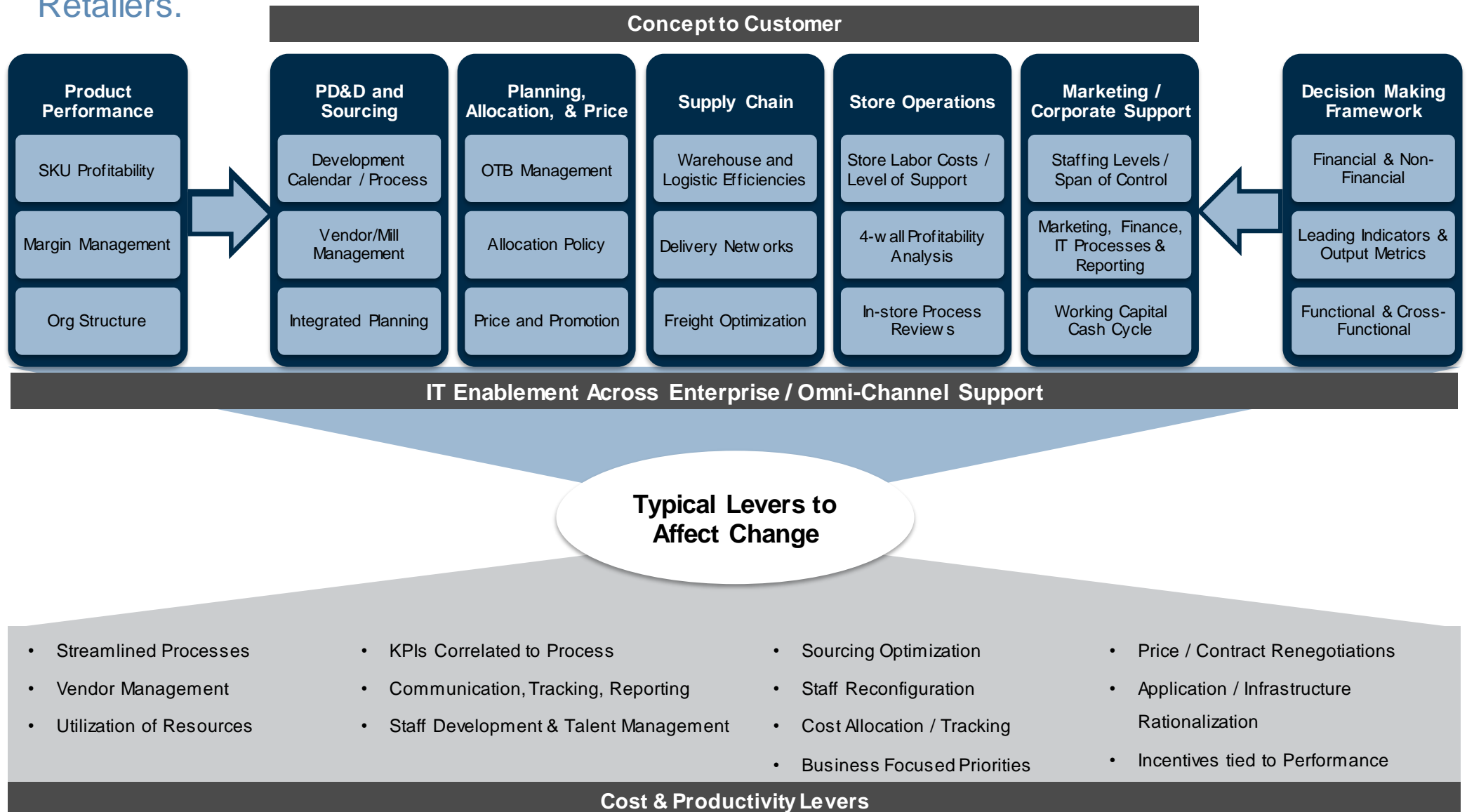
✓ **Hands-On Leadership and Transformational Support**



✓ **A&M Bias To Action**

From “Concept to Customer” Performance Improvement

A&M has experience improving the major levers that drive value creation and success for Retailers.



A&M Retail & Consumer Solution Offerings

A&M possesses deep retail functional expertise to enable and support overall enterprise transformations and targeted functional performance improvement.

**Due Diligence /
Assessments**

Growth

Cost Optimization

**Interim
Management**

Implementation

A&M Retail & Consumer Solutions :

- ✓ **Retail Rapid Results Assessment**
- ✓ **Enterprise Transformations**
- ✓ **Growth / Margin Improvement**
 - **Customer Analytics and Marketing Effectiveness**
 - **Merchandise Productivity / Speed to Market / Assortment Optimization**
 - **Pricing, Promotions, Markdown Cadence**
- ✓ **Cost / Operations Optimization**
 - **SG&A Cost Reduction**
 - **Product Design and Development Efficiencies**
 - **Sourcing and Supply Chain Optimization**
 - **Store Operations (Labor and Process Improvements)**
 - **Omni-Channel / Digital Effectiveness**
 - **IT Enablement**
 - **Real Estate Portfolio Optimization**
- ✓ **Retail M&A (Carve Outs, Merger Integration)**

Typical Retail Results for SG&A Cost Reduction

Using an operator's mindset and leading practices, A&M typically drives 10% - 20%+ cost savings against common SG&A expense items.

A&M Typical SG&A Cost Reduction Results

✓ Headquarter / G&A reductions:	15 - 25%
✓ Field organization reductions:	15 - 30%
✓ Store payroll reductions:	5 - 10%
✓ Advertising, promotions, print	10 - 15%
✓ Small parcel / courier services	8 - 14%
✓ Distribution / fulfillment / logistics	9 - 17%
✓ Vehicle / fleet transportation:	3 - 10%
✓ Repair, maintenance & occupancy:	3 - 16%
✓ Technology supplies & services	8 - 14%
✓ Telecommunications	8 - 20%
✓ Travel	5 - 18%
✓ Janitorial Services	5 - 15%
✓ Office Supplies:	10 - 25%
✓ Benefits	12 - 20%
✓ Insurance	15 - 25%

Illustrative Example

Functional Benchmark Comparisons

(in \$ millions)		Expense (as a % of Revenue)*			
		Company Performance	Top Quartile	Median Quartile	Performance Gap
Stores (Labor)	\$	12.4%	9.0%	11.0%	
Store Rent (Tenancy)	\$	15.0%	13.0%	15.0%	
Field Support	\$	0.8%	0.4%	0.5%	
Distribution & Fulfillment*	\$	3.2%	2.3%	3.0%	
Information Technology	\$	2.3%	0.8%	1.6%	
PLC**	\$	2.8%	2.0%	2.3%	
Marketing	\$	3.8%	2.0%	3.0%	
Finance	\$	1.0%	0.7%	1.0%	
HR	\$	0.6%	0.3%	0.5%	
Legal	\$	0.5%	0.1%	0.2%	
Other***	\$	3.5%			
Total SG&A	\$	46.0%			

Typical Retail Results for Margin Growth Via Assortment Optimization, Pricing and Promotion Improvements

Through improvement assortment planning, pricing and promotions analysis, SKU rationalization and sourcing, A&M typically drives 250 – 500 basis point improvements in gross margin.

Typical A&M Results for Margin Improvement

- ✓ Improve GM % 10 - 20%
- ✓ Improve GM \$ 5 - 15%
- ✓ Grow Revenue 3 - 7%
- ✓ Reduce Inventory Costs: 8 - 15%
- ✓ Reduce percent of clearance sales 20 - 30%
- ✓ Reduce SKU counts 10 - 20%
- ✓ Reduce marketing expenses 5 - 10%

Illustrative Examples

Week	2015	2016	YOY Change
Promo Sales	\$1,316,145	\$1,342,467	2%
Promo Margin	\$43,163	\$91,796	20%
Margin %	18%	22%	19%
Incremental Sales	\$1,01,848	\$92,032	10%
Incremental Margin	\$10,225	\$1,293	30%
SKU Count	3,757	3,006	-20%

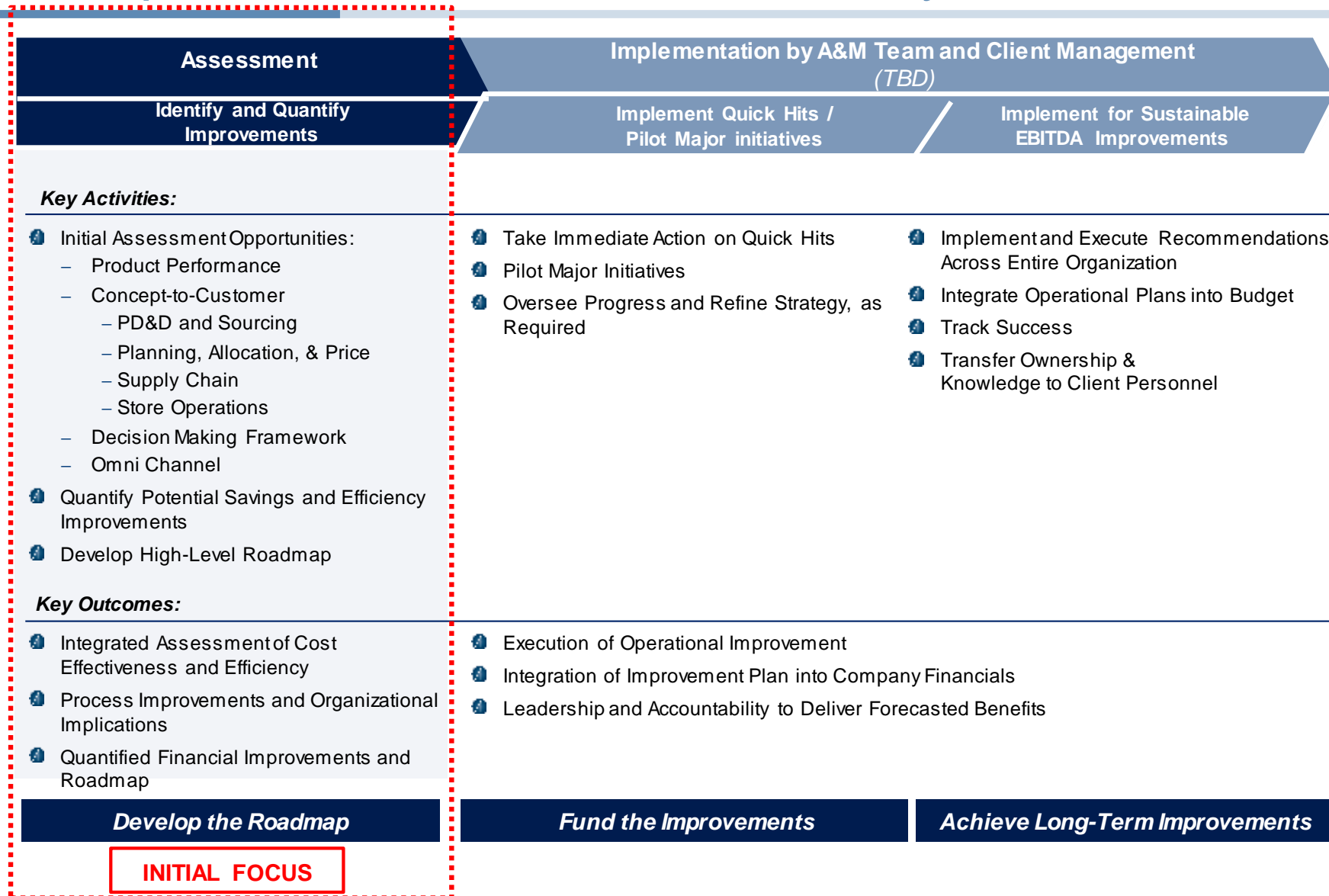
SKU Optimization Framework – Improve underperforming SKUs

		Quad 2		%	Quad 1		%
High Sales \$	Styles	88	11%		172	21%	
	Units	802,297	25%		1,681,580	52%	
	Sales \$	\$ 5,603,433	23%		\$ 14,140,289	59%	
	GM \$	\$ 3,053,262	22%		\$ 8,642,928	63%	
	GM%	54.49%			61.12%		
		Quad 4		%	Quad 3		%
Low Sales \$	Styles	478	57%		97	12%	
	Units	622,215	19%		146,126	4%	
	Sales \$	\$ 3,288,111	14%		\$ 1,123,259	5%	
	GM \$	\$ 1,396,497	10%		\$ 674,304	5%	
	GM%	42.47%			60.03%		

Low GM %

High GM %

A&M Rapid Results Assessment Quickly Identifies Value



Select Asia Retail Credentials

Description	Service
Assisted Advantage Partners in its acquisition of the Papa John's franchise in Beijing	Financial Due Diligence
Assisted Clearvue Partners in its proposed investment in a cosmetics retailer in China	Financial Due Diligence
Assisted Clearvue Partners in its investment in a convenience store chain in Central China	Financial Due Diligence

Client Credentials



Challenge

- A \$70bn publicly traded, grocery, apparel, and homewares retailer.
- The client experienced significant operating losses after a failed international expansion with estimated losses of over \$5B.

A&M's Role

- The A&M team conducted two assessments, focused on strategic operations and defence of activist investors.
- Working with the client, A&M identified the optimal future state organisation.
- Work and roles were identified which could be logically organised into new Centres of Excellence (COE).
- Optimal placement of the retained employees within the future organisation.

Outcome

- Savings overall of \$170-200m were identified through spans & layers optimisation.
- Within this, \$50m of headcount reduction savings were identified.



Challenge

- International fashion retailer with a network of over 2,000 stores in Europe, Brazil, Mexico and China. Company had built a strong online presence in recent years; the company needed immediate management support and a diagnostic of the drivers of underperformance.

A&M's Role

- A&M ran a rapid diagnostic.
- Quickly communicated key challenges; covering business strategy, operating model, business planning, IT, structure, processes, marketing, logistics, financial controls & reporting, merchandising and e-commerce.
- Engaged to act as Interim E-Commerce Director, Interim Head of France and China, provide leadership to the digital team and implement supply chain transformation.
- Developed a number of scenarios for opportunities to return the business to a path of profitability, with a detailed breakdown of costs.
- Designed a new structure & operating model.

Outcome

- Currently implementing transformation across 20 countries.



Challenge

- The client, a Dallas-based major American luxury specialty department store with ~\$5 billion in revenue, was experiencing moderate top line growth with declining EBITDA.
- The client was acquired by a private-equity sponsor and Pension.
- A&M was engaged to assess and identify opportunities.

A&M's Role

- A&M worked Transportation, Marketing, Store Operations, Restaurant Operations, and Legal groups to identify indirect cost reduction opportunities.
- A&M identified \$290M+ of wave 1 addressable spend.
- A&M supported the client in designing a new procurement organisation.

Outcome

- Achieved \$29M+ in annual cost savings through sourcing 16+ indirect categories in 5 months.
- Helped design and implement a new procurement organisation.

Client Credentials



Challenge

- Specialty retailer with \$2B in sales fighting declining margins and increasing SG&A costs as a percentage of revenue.
- Pressure from an activist to improve performance / maximize shareholder value.

A&M's Role

- A&M was engaged by the CEO to provide a rigorous assessment, evaluate the SG&A platform and create an objective point of view of cost reduction opportunities.
- Conducted a comprehensive review of SG&A cost performance and identified, sized and prioritized cost reduction levers / initiatives.
- Identified SG&A opportunities to right-size the business, as well as informed the business on how SG&A investments should align to the "new normal" of today's retail.

Outcome

- \$80-\$100M in savings EBITDA improvement.
- Outlined an achievable plan and roadmap to reduce the SG&A costs in 6 - 12 months.
- Developed an "Activist perspective" on the client's performance to inform leadership and prepare for intensified activist pressure.



Challenge:

- A \$1.2B global wholesaler and retailer of action sports apparel in the process of going through a major corporate turnaround initiative, moving from a regional to a global brand-driven organization while improving effectiveness and cost-efficiency of several deficient departments.
- A&M was brought in to establish priorities and drive implementation on a short timeline.

A&M's Role

- A&M deployed as Chief Turnaround Officer (CTO) as well as supporting resources to the office of the CTO.
- CTO established a new reform framework and provided project management, structure and leadership over key global and cross-brand initiatives.

Outcome

- Drove over a 10% improvement year one and recurring operating cost reductions to ramp up to over \$50M in annual, repeating value creation.



Challenge

- \$1.3B accessories and jewelry retailer operating 3000+ stores in US and Europe, with franchises in Asia, Middle East and Latin America has been facing declining revenues and gross margins.
- A&M was engaged to assess and identify opportunities to improve speed to market to be more on trend, and reduce supply chain costs.

A&M's Role

- A&M performed an End to End Supply Chain assessment focused on three areas:
 - Process flow from Concept to Order
 - Assessed supply base performance
 - Logistics, distribution and parcel costs

Outcome

- A&M identified \$18 to \$34 million of EBITDA improvement opportunities including:
 - 25% compression of product development calendar opportunity
 - Reduction of supply chain lead times.

Client Credentials



Challenge

- Client is a \$700M home décor retailer, growing rapidly, adding 20+ stores a year.
- Improve financial performance and build direct sourcing capabilities.

A&M's Role

- A&M was engaged by CEO to develop a direct sourcing strategy with specifics on how to build direct sourcing capability and identify new, more favorable countries of origin.
- Served as Interim Head of Direct Sourcing.
- A&M developed a direct sourcing strategy and provided implementation support to identify the right agents/factories, verify capabilities, manage bid/award process and on board the vendors.
- Evaluated 50+ factories in China, Vietnam, India for multiple categories (e.g. furniture, outdoor, lamps, rugs, seasonal, textiles).
- Developed sourcing processes and sourcing platform for future expansion.

Outcome

- \$150M of direct sourcing spend awarded.
- ~\$10M - \$15M of savings will be realized.
- 400 – 800 bps improvement on FOB costs.



Challenge

- \$1.5B publicly traded furniture, appliances and electronics retailer with 110+ retail stores. Provides sub-prime borrowers with credit through its in-house lending division.
- The company was struggling with higher charge-off rates and poor retail performance.

A&M's Role

- Evaluated five main areas including Credit, Collections, Merchandising, Store Operations and Distribution.
- Rationalized SKUs to drive inventory and margin improvements.
- Developed and initiated implementation of a "hub and spoke" distribution model.
- Served as an Interim Regional VP for new market stores and Interim VP of Distribution.

Outcome

- A&M was engaged to implement identified initiatives realizing ~\$15M in run rate GM improvement from SKU Rationalization and \$14M distribution savings.

ROCKPORT

Challenge:

- Footwear brand with \$400M in sales that specializes in making dress and casual shoes with the comfort and technology of an athletic shoe was carved out from a multibillion dollar sportswear company.
- Separation activities were broken into two groups: Group 1 Domestic and Group 2 International.
- A major part of the cutover was an ERP system implementation.

A&M's Role

- Engaged to provide an assessment if A) the current team in place could deliver a TSA exit B) estimate the cost to stabilize Group 1 & deliver Group 2 C) should the company pay TSA-exit no complaint penalty.

Outcome

- A&M assessment found the current team could not execute without restructuring the program and enhancing accountability and adding senior level support.
- A&M then engaged as Project Transformation Officer with interim resources.

Additional Retail Credentials

A&M has a proven track record of executing practical solutions in a complex business environment to deliver results.

<p>Major Multichannel Retailer with high growth plans</p> <p>This retailer was seeing growth in categories and business affiliates. Legacy technology was preventing growth.</p> <p>A&M hired to develop a transformation plan for business systems and organisation structures. End result was a far more agile development model.</p>	<p>Leading Multichannel Fashion Retailer</p> <p>Major 1,000 store retailer growing concerned at the online competitive threat.</p> <p>A&M hired to assist in streamlining the core areas of product management; e-commerce operations; and digital marketing. End result was a clear transformation roadmap for 3-5 year program.</p>	<p>Leading Fashion Retailer</p> <p>\$2B primarily mall-based retailer facing declining revenues and margins. .</p> <p>A&M hired to review SG&A cost structure, identify new processes, identify demand management improvements. A&M delivered multiyear roadmap with substantial financial and operating improvements.</p>	<p>Global Luxury Brand Licensing & Retail Operation</p> <p>600+ worldwide locations and 2 e-commerce sites, lacking operational alignment</p> <p>A&M hired to develop a single global vision for operations and reporting, allowing easy integration of new brands and international accounting. We delivered a single model for planning and reporting</p>
<p>Global 50 General Merchandise Retailer</p> <p>Legacy bricks and mortar retailer seeking business transformation.</p> <p>A&M hired to review cost structure and operating model. Developed future state operating models, identified right sizing approach and oversaw implementation of first wave of initiatives</p>	<p>Leading General Merchandise Retailer</p> <p>Multi-billion \$ retailer decided to bring the e-commerce operations in house.</p> <p>A&M hired to manage customer data migration; contact centre review; and upgrade business analytics. We acted as strategic partner with all vendors, overseeing the transformation program.</p>	<p>Major USA Multichannel Specialist Retailer</p> <p>1,000+ stores and e-commerce</p> <p>A&M hired to assist in the integration of all store and e-commerce operational planning. The result was a single model for integrating new stores, and consistency of process and KPIs across the business to support operational accountabilities</p>	<p>Prominent Convenience Store Retailer?</p> <p>An organization with 700+ owned and 100+ dealer stores across multiple US states.</p> <p>A&M was brought in to both stabilize and enrich profits both financially and through effective merchandising. Challenging operational and merchandising execution, focused on merchandise mix, vendor / category optimization.</p>

Appendix: Performance Results & Team

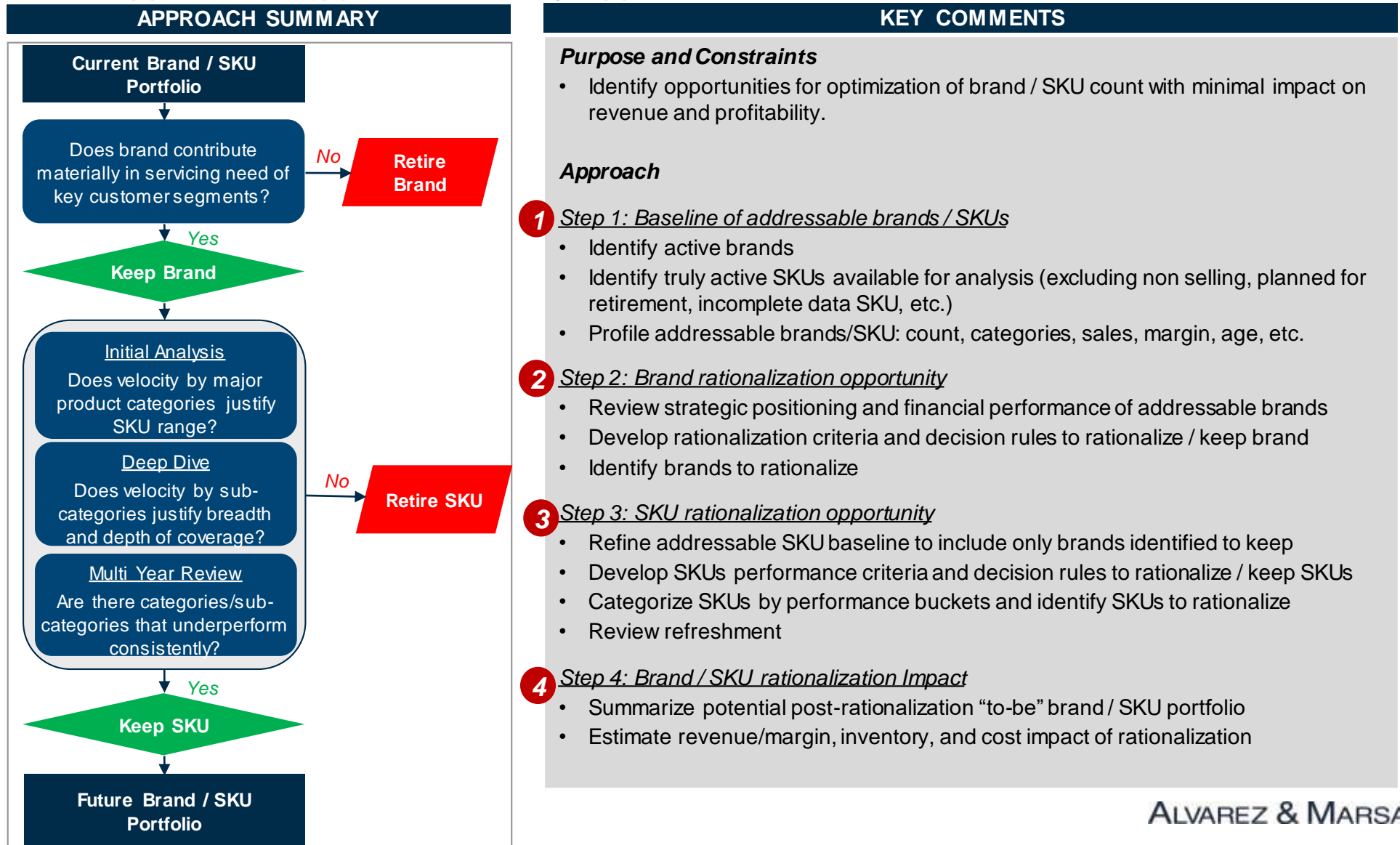
- ✓ SG&A Cost Reduction
- ✓ Brand / Product / SKU Rationalization
- ✓ Sourcing / Contract Manufacturing
- ✓ Store Operations Improvements
- ✓ Field Structure Improvements
- ✓ Real Estate Solutions
- ✓ A&M Consumer & Retail Team

SG&A Transformation Case – Major National Retailer

Activist POV		Operational Levers	
Focus:			
<ul style="list-style-type: none">• SG&A• Real Estate• Supply Chain• Distribution & Logistics• IT	<ul style="list-style-type: none">• Staffing - Buyers / Merch• Marketing / Ad Effectiveness• HQ Services (HR / Payroll, etc.)• Canada (Support + Ops)	<ul style="list-style-type: none">• Stores – Labor• Stores – New Formats / Updates• Digital (Support + Ops)• Sourcing• Innovation & Specialty Offices	
Tasks:			
<ul style="list-style-type: none">• Leverage publicly available information (10-Ks, 10-Qs, SEC filings, Buy side analysis, etc.)• Parse data, develop measures, compare to industry and service line benchmarks• Develop the activist campaign message		<ul style="list-style-type: none">• Deep dive assessment using internal cost center reports, 3rd party expenditures, direct and indirect spend, etc.• High grade and identify levers to drive cost target achievement / quick wins	
Outputs:			
<ul style="list-style-type: none">• Activist POV<ul style="list-style-type: none">• Key weaknesses / opportunities and the case for change• Efficiency and effectiveness assessment• Key focus areas		<ul style="list-style-type: none">• “Inside” cost and effectiveness assessment• Defense strategy / Counter measures analysis• Quick Hits• 100 Day plan / Roadmap	
← - - - Focused Team / Rapid Results - - - →			

Brand/SKU Rationalization Approach

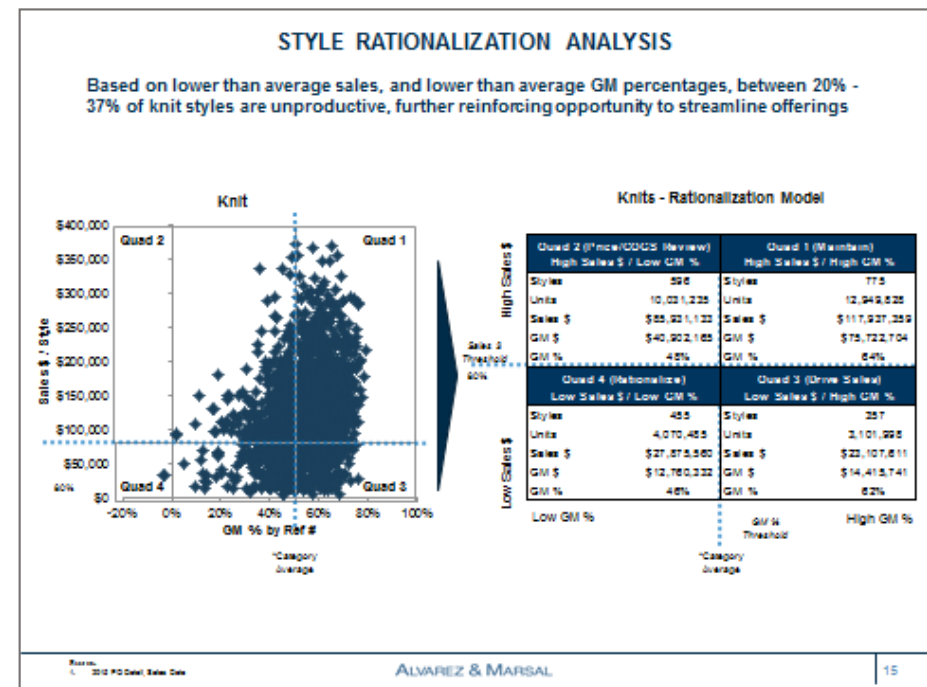
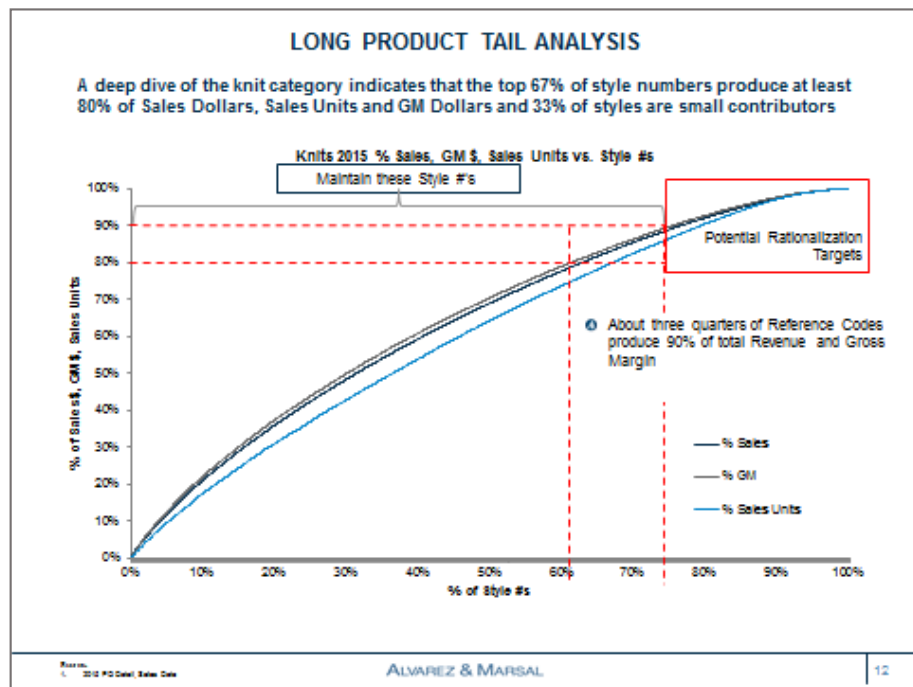
A phased approach is applied to identify opportunities for SKU rationalization



Typical Results for Margin Growth

Through improved assortment planning, pricing and promotions analysis, SKU rationalization and sourcing, A&M typically drives 250 – 500 basis point improvements in gross margin.

Example of SKU Rationalization / Assortment Optimization Analytics



Typical Results for Direct Sourcing

Through Direct Sourcing and Strategic Vendor Management initiatives, A&M typically drives improvements of 12% - 20% in FOB costs and 400-800 basis points in margin.

Example of Identifying Direct Sourcing Opportunities and Related Savings

Company can achieve financial and operating benefits by going directly to factories for products where there is less design complexity and current vendors do not provide value added support.

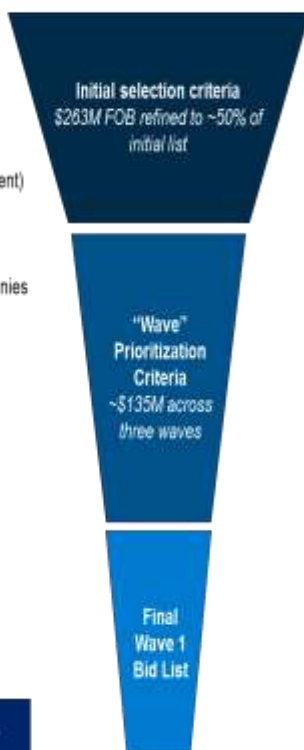
Key Considerations for Direct to Factory Sourcing

- ✓ Less Design Complexity / Lack of Vendor-Owned Intellectual Property
- ✓ Low Vendor Support (Market Intelligence / Design / Product Development)
- ✓ Scale
- ✓ Financial Improvement (e.g., moving from wholesalers / trading companies to direct factory relationships)
- ✓ Mature Factory Base

Additional Prioritization Considerations

- ✓ Larger Financial Improvement Opportunity
- ✓ Less Product / Vendor Mix Complexity (e.g., "greater bang for buck on each vendor move")
- ✓ Lower risk to business continuity (e.g., buyers perceive switching from vendor to be easier from a coordination / product flow perspective)

Buyers participated in scoring / ranking / sign-off process



Products were grouped into superclasses, staged based on prioritization criteria; savings were based on a bottoms up analysis (impact on current agreements and shifts to lower cost countries).

Wave	Superclass	FY17 FOB Spend
Wave 1	Metal Furniture - Barstools & Chairs	\$6,729,470
	Wood - Barstools, Dining Chairs / Set	\$5,664,969
	String-type Lights	\$5,359,985
	Wood & Mirror Cabinets	\$4,935,557
	Umbrellas & Bases	\$4,281,456
	Lamps	\$3,293,773
	Dining Chairs - Upholstered	\$2,666,773
	Occasional Chairs	\$2,147,298
	Shades	\$2,142,340
	Steel Commodity Furniture	\$1,962,907
	Heavy Plastic Pots & Urns	\$1,596,575
	Pillows - Toss - Utility	\$1,585,708
	Metal Accent Tables	\$1,568,674
	Outdoor Ceramic Pots	\$1,076,001
Wave 1 Total	Baskets - Wicker	\$584,199
	Baskets - Wire	\$558,786
	Baskets - Fabric	\$494,591
Wave 1 Total		\$46,649,062

Wave	Superclass	FY17 FOB Spend
Wave 2	Christmas Trees	\$8,006,842
	Shag Rugs	\$5,696,687
	Patio Wicker	\$3,735,247
	Window Coverings - Soft	\$3,439,264
	Sofas / Loveseats / Ottomans	\$2,695,488
	Mirrors	\$2,556,913
	Shatterproof Ornaments	\$2,374,732
	Comforters	\$2,317,298
	Wood Accent Tables	\$2,244,102
	Glass / Ceramic Vases	\$1,956,225
	Frames	\$1,748,199
	Pathway Lighting	\$1,650,986
	Racks	\$1,582,108
	Glass Drinkware	\$1,198,296
Wave 2 Total	Window Hardware	\$1,040,080
	Indoor Ceramic	\$941,983
	Bath Rugs	\$898,102
Wave 2 Total		\$46,664,711

Wave	Superclass	FY17 FOB Spend
Wave 3	Patio Cushions	\$11,953,825
	Pillows - Toss, Oversize, Patio	\$7,514,635
	Seasonal Table & wall décor	\$5,760,331
	Lit outdoor décor	\$2,668,836
	Candles - Non-battery	\$2,571,701
	Inflatables	\$1,926,097
	Utility Pillows	\$1,651,464
	Headboards	\$1,453,719
	Metal Patio Furniture	\$2,107,109
	Plant Stands	\$1,159,844
	Sheds	\$1,035,320
	Pet Pillows & Cuddlers	\$911,228
	Other Trees	\$845,099
	Baskets - Plastic	\$632,725
Wave 3 Total	Ceramics - Housewares	\$509,076
	Glass Ornaments	\$395,476
	Seasonal Stocking Holders	\$365,735
Wave 3 Total		\$44,331,154

Savings Opportunities by Wave Based on FY17 FOB spend

Wave 1 - \$2.9 - \$5.4M \$4.1M Midpoint¹ <i>Based on awarding ~65% of spend</i>	Wave 2 - \$3.2 - \$4.9M \$4.5M Midpoint¹ <i>Based on awarding ~80% of spend</i>	Wave 3 - \$2.8 - \$5.0M \$3.8M Midpoint¹ <i>Based on awarding ~80% of spend</i>
Three year midpoint savings of ~\$12M; ~12% of awarded FOB spend		

Factory Selection based on Strategic Supplier Management Framework to Establish a Shared Vision of “Future State”

Operating Priorities

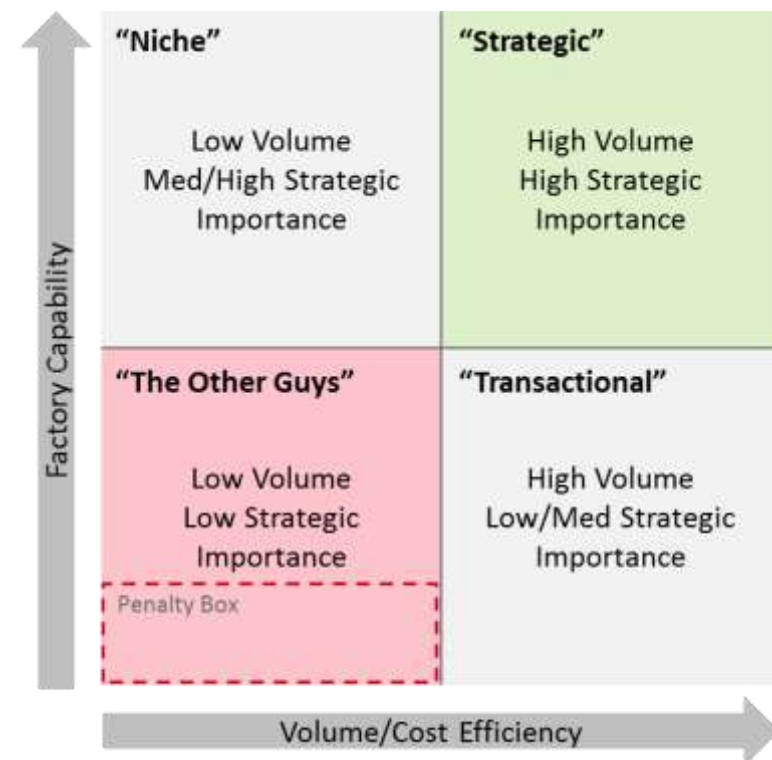
1. CSR
2. Quality
3. On time delivery
4. Cost management

Organizational Alignment on Strategic Supplier Criteria and Future State Goals and Priorities....

Criteria	Future State Goal
Core Requirements	Non negotiable requirements such as CSR, buying into mission, capacity availability
Business Requirements	Future potential and stability (people and financial)
Operational Performance	Performance on key attributes such as quality, delivery, cost and flexibility
Development Performance	Technical capability, responsiveness, accuracy and innovation capability

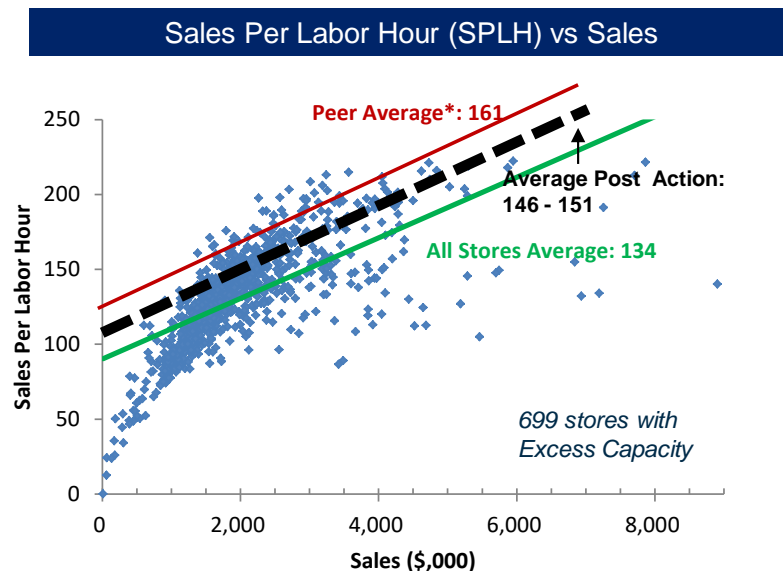
...Drives placement of Suppliers across Strategic Matrix with differentiated goals and expectations

Supplier Portfolio



- Target ~60% of Supply
- Target ~30% of Supply
- Target limited number of suppliers

Optimize Store Labor – Sample Analysis and Output



Key Observations

- Sales per labor hour (SPLH) productivity lags industry average
- Excessive idle time was observed during store visits further corroborating productivity opportunities
- Current policy allocates 15-20% hours to the schedule for non-productive, non-client facing activities
- Stores can absorb this allocation into their normal hours; evidenced by post action SPLH of 146 - 151
- Updating best practices for non-customer facing processes will further enable sustainable reductions

DIV	Store Count <Avg. SPLH	% Client Facing Hours	% Workflow Hrs	% Training Hrs	% Multi Channel
Brand 1	217	80%	12%	4%	4%
Brand 2	394	79%	13%	5%	4%
Brand 3	88	80%	16%	4%	0%
Totals	699				

DIV	Low Reduction	High Reduction
Brand 1	351	480
Brand 2	730	983
Brand 3	165	218
Totals	1,247	1,681

(in thousands)

Savings Summary (\$ millions)	
Low Savings*	13.7
High Savings*	18.5

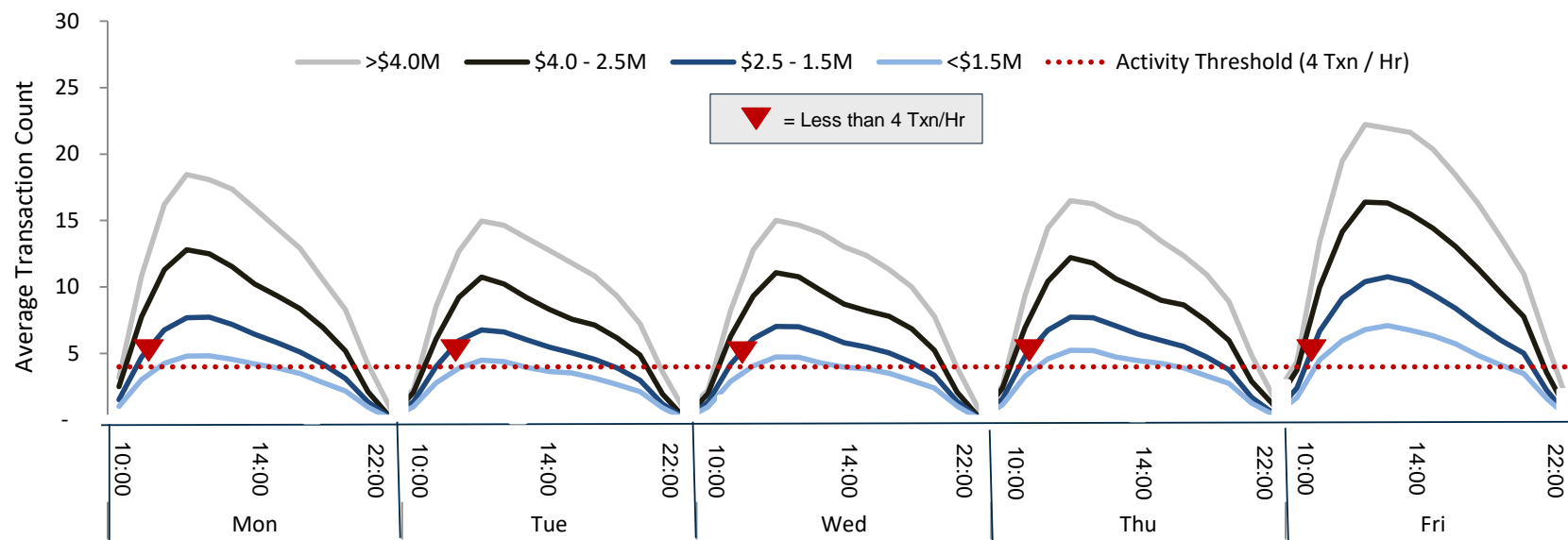
Methodology

- Address stores with below average SPLH, within each volume tier, as they represent opportunity for improvement
- Assume hour reduction comes from Sales Associate (avg. wage \$11/hr)
- Low & High estimates calculated by eliminating allocation of workflow hours only, workflow & training hours respectively

Savings Summary

\$13.7-18.5M

Align Store Hours / Staffing Schedules To Traffic



Key Observations

- Weekday morning activity is low with less than 4 transaction/stores in the morning hours for stores <\$2.5M
- Peers have demonstrated implementing the single staff opening policy with success (e.g. Comparison Companies)
- Initial pass includes 612 stores in scope: <\$2.5M in sales volume located in shopping-mall locations

Methodology

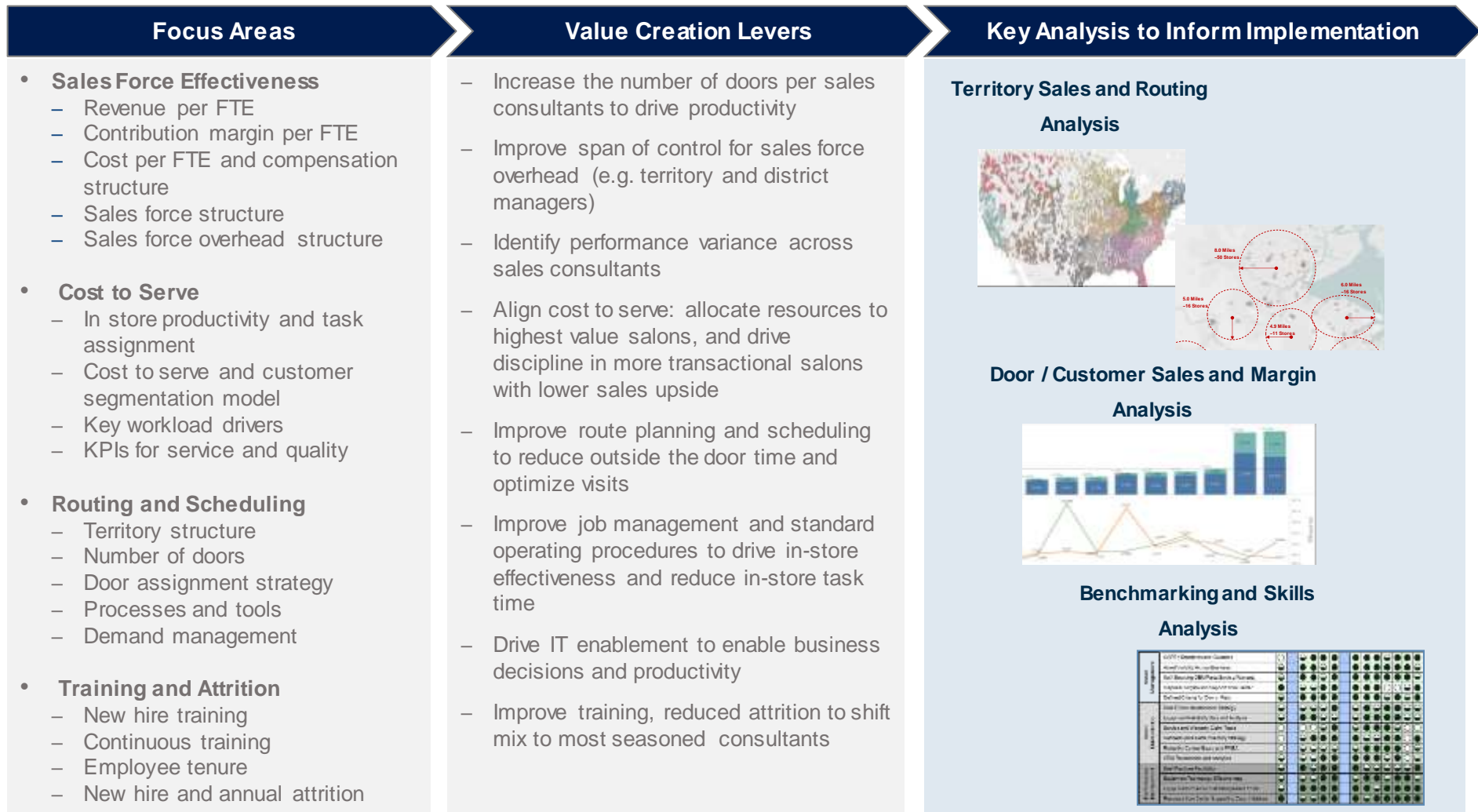
- Applies to stores with volume <\$2.5M
- Reduction of 2 staffed hours per store during weekdays
- Savings calculated with avg. wage of Sales Lead (i.e. Key Holder)
- Low & High estimates calculated by including shopping-mall only (601 stores) and all store types (837 stores)

Savings Summary

\$4.4 – 6.0M

Distributor Sales Consultants

The objective of this area of analysis is to identify and quantify opportunities to transform the service delivery model to increase sales force effectiveness, service, and lower cost to serve



Field Sales and Direct Merchandising Performance Improvement

Global \$1B+ Consumer Product Company

Project Description:

- A&M was tasked to identify cost reduction and performance improvement opportunities within the company's Field Sales and Merchandising organization which services 40,000+ retail doors in North America through a 200+ employee field sales team and 10,000+ direct merchandisers

A&M Role:

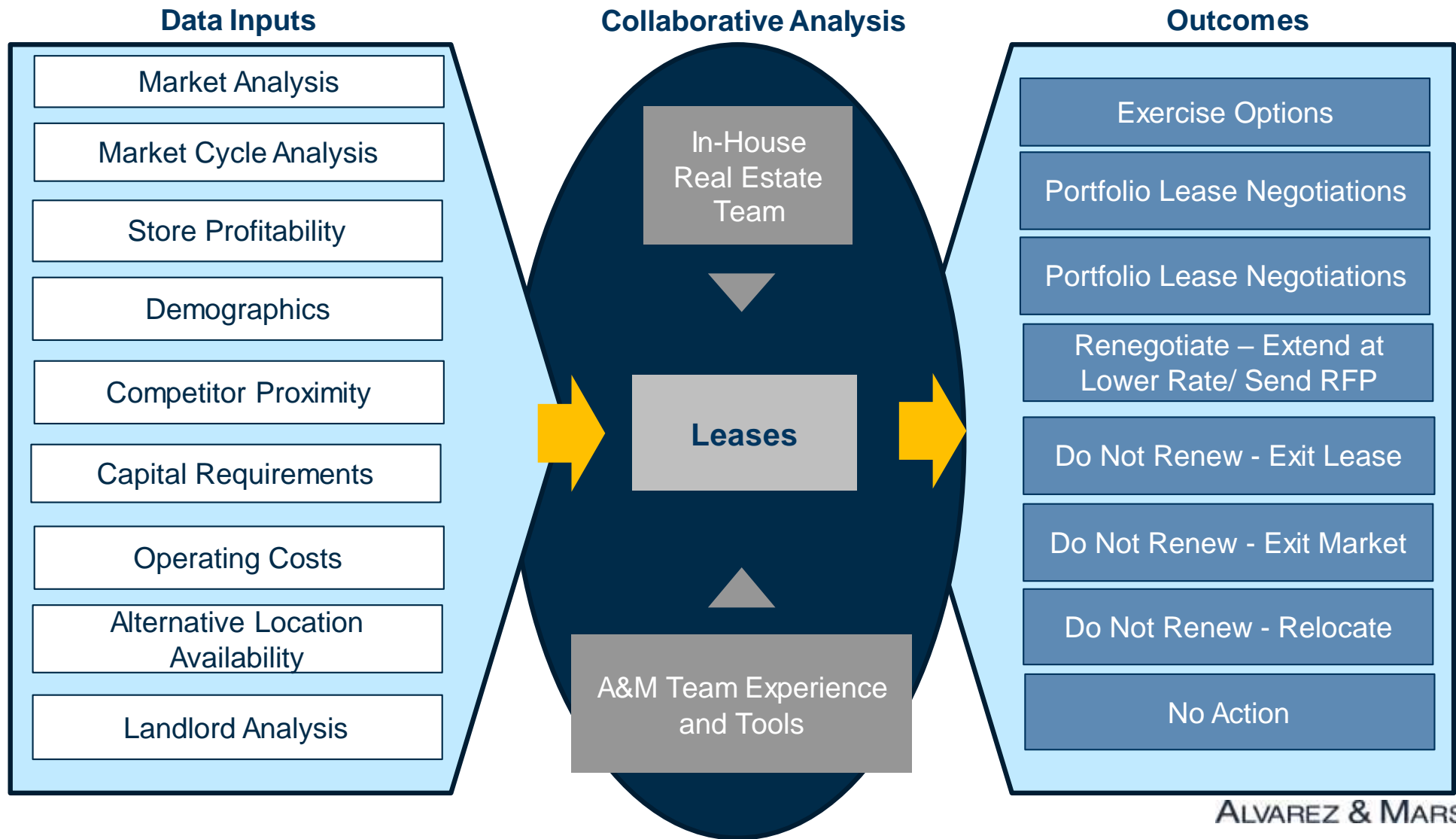
- A&M evaluated drivers of workload, high employee turnover, and overall business complexity by channel mix and top customers across 200+ North America territories to identify opportunities to transform the current service delivery model
- In addition, A&M conducted internal and external benchmarking to identify opportunities to improve direct merchandising productivity and improve span of control within the Field Sales organization
- Lastly; to reduce overall organization complexity, the team conducted interviews with leading Sales and Marketing agencies to assess potential service models to outsource the direct merchandising function

Direct Outcomes:

- The engagement identified opportunities to reduce direct merchandising cost by 6 – 10% and Field Sales cost by 15 – 25% which is expected to generate \$15 - \$25M in incremental EBITDA through efficiency improvements and aligning cost to serve across customers, channels, and territories
- Across people, process, and technology, A&M identified opportunities to reduce high employee attrition, improve discipline in cost to serve, and improve merchandising efficiency through: routing optimization, scheduling optimization, and technology enablement for in-store efficiency
- Resulting in resources being allocated to the highest value accounts to grow and protect revenue and reducing cost in more transactional areas with lower sales upside

Store Portfolio Optimization

The A&M Team's Approach to a Store Portfolio Analysis focuses on defining the lease negotiation outcomes most preferable to Sally's, based upon market cost data and demographic characteristics in each market.



Examples of A&M Retail Real Estate Outcomes

Retail – Upscale Clothier

A&M performed a thorough review of Clothier's store portfolio from a profitability perspective, identifying the key profitability drivers for each store. Stores that were deemed unprofitable and without improvement opportunities were identified for systematic closure. The A&M team then established a process for addressing the leases for go-forward and closing stores which resided with REIT landlords, in order to leverage Clothier's position with each landlord according to the goals of the Clothier, in securing either rent reductions or lease buyouts.

Large Sporting Goods Retailer

A&M performed a comparative analysis for over 160 stores of in-place lease rents versus market rents, an analysis of real estate strategies and a demographic tapestry analysis. The analysis focused on identifying cost savings or opportunities including a lease mitigation strategy for potential store closings.

Large Bldg. Products Retailer

A&M benchmarked to market approximately \$230MM of operating costs at the Company's US Stores, Distribution Centers, and Corporate Headquarters. As a result of our analysis, A&M developed a business case for a full outsource of Exterior Services as well as Facilities Maintenance, wrote an RFP for a Pilot, and oversaw the RFP Process along with the Company resulting in the awarding of both to a large FM Services Provider.



A&M reviewed For Eyes' store lease portfolio against market rates as well as reviewed store profitability to identified stores that were candidates for lease renegotiations. A&M also provided guidance on build out costs for stores as well as a process for sourcing an overall contract from a Real Estate Service Provider focusing on portfolio administration and operational cost reduction.

Retail - National Franchisee

A&M performed an assessment focused on Operational Cost Reduction, Process Improvement, and a CRE Organizational Structure Review. A&M identified the areas where the client's costs were well above market; our analysis quantified cost savings potential, timeframe, and cost to implement each initiative.

Sample Real Estate Deliverables



Item	Address	City	State	ZIP	CoStar Submarket	CoStar RM Asking Rent	CoStar Building Rating 1-5	Lease Start Date (CoStar)	Remaining Term (Months)	SQ FT	Rent P/SF (10/15)	Expenses P/SF (11)	Annualized Total Cost	2017 Sales	Total Cost / Sales
In-Place Leases	332 East Union Blvd	DELRAY BEACH	FL	33483	Delray Beach	\$20.00	3 stars	N/A	97	3,500	\$43.00	\$12.58	\$138,547	\$475,455	29.23%
Plant Foot	332 East Union Blvd	DELRAY BEACH	FL	33483	Delray Beach	\$20.00	3 stars	May-16	N/A	1,200	\$27.00	\$10.00	N/A	N/A	N/A
In-Place Leases	332 East Union Blvd	DELRAY BEACH	FL	33483	Delray Beach	\$20.00	3 stars	Dec-15	4	2,400	\$27.00	\$10.00	N/A	N/A	N/A
In-Place Leases	332 East Union Blvd	DELRAY BEACH	FL	33483	Delray Beach	\$20.00	3 stars	Aug-15	1	1,857	\$20.00	\$10.00	N/A	N/A	N/A
In-Place Leases	332 East Union Blvd	DELRAY BEACH	FL	33483	Delray Beach	\$20.00	3 stars	Aug-15	1	1,482	\$20.00	\$10.00	N/A	N/A	N/A
Direct Project	332 East Union Blvd	DELRAY BEACH	FL	33483	Delray Beach	\$20.00	3 stars	May-15	N/A	2,000	\$27.00	\$10.00	N/A	N/A	N/A



Additional CoStar Market Data				
Retail	Harbor Plaza	Delray Beach 2-4 Star	Delray Beach	Palm Beach
Buildings	1	536	565	5,056
Existing SF	45,361	7,632,880	7,857,079	79,547,872
Average Building SF	45,361	14,240	13,907	15,733
Under Construction	-	153,054	153,054	785,188
Leasing				
NNN Rent Per SF	-	\$26.09	\$27.55	\$21.78
Vacancy Rate	0.00%	5.10%	5.20%	4.30%
Available Spaces	0	223	231	1,464
Available SF	0	779,376	794,733	5,366,833
12 Mo. Absorption SF	0	127,672	147,969	881,173
12 Mo. Leasing SF	1,200	250,455	254,779	2,606,869

Store	CoStar NNN Asking Rent	Annualized Rate	% above Market (%)	Annual Base Rent above Market (\$)	Monthly Base Rent above Market (\$)	Remaining Term (Months)	Total Above Market Costs over Term (\$)
162-Gurnee	\$13.18	\$32.00	142.7%	\$33,870	\$2,823	69	\$194,755
161-Streamwood	\$15.68	\$30.00	91.3%	\$31,070	\$2,589	64	\$165,709
155-Burlington	\$18.50	\$45.00	143.2%	\$38,608	\$3,217	56	\$180,169
123-Annapolis	\$22.43	\$46.54	107.5%	\$48,223	\$4,019	65	\$261,205
119-Oakbrook	\$17.73	\$43.57	145.7%	\$51,821	\$4,318	47	\$202,964
105-Frederick	\$17.58	\$42.02	139.1%	\$50,837	\$4,236	43	\$182,165
092-South Weymouth	\$18.25	\$45.00	146.5%	\$66,866	\$5,572	59	\$328,759
089-Sandy Springs	\$16.02	\$33.28	107.7%	\$42,708	\$3,559	43	\$153,037
071-Schaumburg	\$15.68	\$34.48	119.9%	\$45,111	\$3,759	46	\$172,924
044-Cinnaminson	\$14.72	\$34.20	132.4%	\$39,922	\$3,327	56	\$186,302
TOTALS				\$449,035	\$37,420	548	\$2,027,991
AVERAGES	\$16.98	\$38.61	128%	\$44,904	\$3,742	55	\$202,799

1. Facilities Lighting	<ul style="list-style-type: none"> Benchmarks indicate significant cost in excess of comparable retailers. Primary cause is outdated fixtures which require more maintenance and power consumption (identified by Energy Program Assessment Summary, January 15, 2015 which is complimentary to our findings). Re-lamping pilot capex of \$50-\$53M across 200 stores required to realize the annual opex and utility savings. 	\$10.6-\$11.1M
2. Waste Disposal	<ul style="list-style-type: none"> Although home improvement retail generates more waste than comparable retailers, costs are higher than expectations. Reduce waste sent to landfills would be achieved through more aggressive recycling at the stores. 	\$8-\$9M
3. HVAC	<ul style="list-style-type: none"> Benchmarking showed variance in HVAC Maintenance cost of \$10M. Leverage national platform that manages an equal or greater number of RTUs. Energy savings are not quantified, but expected. Eliminate conflict of interest between having related companies supplying maintenance services, capital equipment and making recommendations on capital expenditures. 	\$7-\$8M
4. Fire Suppression	<ul style="list-style-type: none"> Fire Suppression, Landscaping / Grounds, Snow Removal, and Exterior Painting are services (~\$8M) that could be coordinated by a national aggregator. 	\$1-\$2M
5. Landscaping / Grounds	<ul style="list-style-type: none"> Services are managed directly with selected preferred vendor or quasi-aggregators. Benchmarking and past experience have shown 5-10% savings (or more) when consolidating national services to retailers with a single aggregator. 	\$4-\$5M
6. Snow Removal	<ul style="list-style-type: none"> Next steps are to include development and issuance of RFP to selected national aggregators, evaluate responses and select a partner. 	\$2-\$3M
7. Other, including Exterior Paint	<ul style="list-style-type: none"> Key criteria for management of local vendors to include historical performance with Lowe's, previous subcontractor roles for new store construction, consistent cost metrics and rate cards, adjusted for regional differences. Categories include Exterior Paint, Pest Control, Plumbing, and Waste Water. 	\$1-\$1.5M
8. Parking Lots	<ul style="list-style-type: none"> Parking Lots benchmark low, however many retailers have much smaller customer lots, and large size of Lowe's parking lots drive efficiency and lower cost per square foot. GICs are used on many large Parking Lot Repair projects, which is up to 14% of the project cost. Need to modify current processes the eliminate GICs and access capex cost of approximately 10%. 	\$0.8 - \$1.4M
9. Outsourcing	<ul style="list-style-type: none"> Current systems do not support ongoing requirements, cost to update systems is substantial and capital is not available. Corporate facilities management savings can be achieved via outsourcing. Many national aggregators of facilities related services have systems that they provide as part of their service offerings or at a nominal charge that could be leveraged in the short term to solve these issues. 	\$1-\$2M
10. Organization Consolidation	<ul style="list-style-type: none"> Client currently has separate facilities management groups for Office, distribution centers and Client stores. No Facilities group exists for fulfillment centers and Allied Businesses. Identify synergies and combine all of these groups to create a more efficient delivery model of services. Combined org 10-15% 	\$0.5-\$1M

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