

2014 ANNUAL REPORT



/NEXCOM

MISSION:YOU

NEX

NAVY LODGE

NCTRF

TPO

SHIPS STORE

UPMO

FROM THE CEO



Sailors and their families received better prices and more savings in their pockets. It's just another way to deliver the non-pay benefit.

The Navy Exchange Service Command (NEXCOM) Enterprise is comprised of 100 Navy Exchange (NEX) facilities and over 300 stores worldwide, 39 Navy Lodges, 146 ships stores, the Uniform Program Management Office (UPMO), the Navy Clothing Textile and Research Facility (NCTRF) and the Telecommunications Program Office (TPO). Our worldwide enterprise has nearly 13,000 associates, over 30 percent of whom are military affiliated as either family members or veterans.

At the end of 2013, NEXs were experiencing a declining trend in sales. As we entered 2014, we created deliberate “disruptive” promotional strategies to drive footsteps and bring our customers back into our stores to shop. Some of these strategies included increasing the number of scratch-off card events, increasing our advertising efforts, creating our Red, White and Navy Blue summer savings promotion and implementing the Wednesday “WOW” program. Our efforts paid off! By the end of 2014, our retail sales were up 1.7 percent to last year. Even though our gross margin was below plan, our Sailors and their families received better prices and more savings in their pockets. It’s just another way to deliver the non-pay benefit.

We had many other great accomplishments in 2014, including launching our new web store, myNavyExchange.com, and rolling out our new Oracle point-of-service system to all our NEXs in the continental United States. Our Ships Stores Program successfully implemented the fleet’s newest point-of-sale retail system, Retail Operations Management, version 3 (ROM 3) in 10 ships stores. We continued with our branding initiative in our stores, Navy Lodges and ships stores. NCTRF initiated a Navy sizing correlation study to gather data to get an up-to-date snapshot of the size and shape of today’s Sailors. The sizing information we are gathering today could lead to new updated sizing patterns for uniforms, organizational clothing and personal protective equipment which will improve fit, appearance and comfort for Sailors in the future. Many of our other noteworthy accomplishments are listed within this report.

Our total annual sales in 2014 were \$2.7 billion with a net profit of \$65.9 million which generated \$46.6 million in dividends for Morale, Welfare and Recreation (MWR) programs. Meanwhile, we spent \$72.9 million for capital expenditures from our operating cash flow to improve our customers’ shopping experience and to remain competitive within the retail market.

This coming year promises to bring a lot of fantastic opportunities and initiatives which will allow us to continue delivering on our mission to our customers and guests around the world. NEXCOM has been proudly serving our military members and their families for 69 years and we are well-positioned to continue delivering this key non-pay benefit far into the future!

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R. J. BIANCHI
Rear Adm., SC, USN (Ret)
Chief Executive Officer
Navy Exchange Service Command

MISSION:

To provide iconic brands and quality goods and services to our customers at a savings and support Navy quality of life programs.

ACCOMPLISHMENTS:



myNavyExchange.com

The new NEX web store, myNavyExchange.com, was successfully launched. Benefits of the new site include a lower price on standard shipping at \$4.95, one-time authentication, mobile shopping via smartphone and tablet, enhanced product search and filters, the ability to create and e-mail a wish list, the ability to purchase NEX Gift Cards and ship-to-store capabilities. The web store also accepts the MILITARY STAR® Card for purchases which also gives customers free standard shipping every day.

My Navy Blue Rewards

A new customer reward program for myNavyExchange.com was created to reward customers for shopping online. My Navy Blue Rewards electronically tracks purchases online for those customers enrolled in the program. Customers receive a \$10 electronic reward for every \$500 spent online during a specific time period.

ORPOS Deployment

The Oracle point-of-service (ORPOS) system was implemented in all NEX locations in the continental United States. Some of the features of the system include touch screens to capture signatures on the PIN pad, a receipt bar-code that when scanned retrieves the original transaction(s) for returns, ability to refund and sell in the same transaction, 14-day price adjustment automated with receipt, ability to print gift and duplicate receipts, fast line item voiding that doesn't show on the receipt and faster scratch off card discount process.

FUEL CALL®

In cooperation with Army Air Force Exchange Service (AAFES) and Marine Corps Exchange (MCX), NEXCOM installed FUEL CALL® motorist assist equipment for persons with disabilities at manned NEX gas stations. The equipment allows persons with disabilities to request fueling assistance from their car by wirelessly contacting store personnel with a push of a button. The program was funded from appropriations by the Office of the Secretary of Defense.



Wednesday "WOW"

To help drive footsteps into stores, the Wednesday "WOW" was implemented. Each Wednesday, an item is offered for sale at an incredibly low price for that day only. For the rest of the sale period, that same item is still on sale, just not at the "WOW" price. This program was very successful.

The new NEX
web store,
myNavy
Exchange.com,
was successfully
launched

Navy Blue Holiday

Navy Blue Holiday Weekend sales were up both in store and online. In store sales were more than \$66 million, a 15 percent increase over last year. Online sales for the five day period were more than \$4 million, up 93 percent to last year.



Market Basket Survey Results

The fall 2014 market basket survey results showed that NEX customers save 24.15 percent, not including sales tax. By market, customers save 24.77 percent in Bethesda, Md.; 21.69 percent in Everett, Wash.; 22.56 percent in Great Lakes, Ill.; 24.66 percent in Jacksonville, Fla.; 22.36 percent in Norfolk, Va.; 30.30 percent in Pearl Harbor, Hawaii; 20.47 percent in Pensacola, Fla.; and 25.92 percent in San Diego, Calif.

American Girl Dolls

NEXCOM partnered with American Girl dolls to bring these items to NEX locations. This is American Girl's first business to business partnership and exclusive to Navy within the global retail market. The launch generated \$365,000 in sales in under eight weeks.

NEX Annapolis

NEX Annapolis, Md., held the grand opening of its new 98,500 square foot store. The new NEX includes an outdoor garden center, jewelry store, optical shop, barber and beauty shops and other services as well as new retail departments including boys, girls, junior and young men's clothing, tactical gear, exercise equipment and Clinique and Estee Lauder counters as well as expanded assortments in other areas.

NEX Uniform Shop at Henderson Hall

A new NEX Uniform Shop opened at MCX Henderson Hall, Arlington, Va. The original NEX Uniform Shop inside the Navy Annex closed in October 2011 after 18 years. The new 3,500 sq. ft. NEX Uniform Shop offers laundry and dry cleaning as well as medal mounting.



Red, White and Navy Blue Savings

NEXs worldwide kicked off the summer with a Red, White and Navy Blue savings event beginning Memorial Day weekend. The initiative offered exceptional pricing on every day summer items. Red, White and Navy Blue Savings leads into the Navy Blue Holiday.

/SHIPS STORE

Sales of coffee bars grew to equal 2.6 percent of total sales with over \$1.5 million in profits generated for Sailor quality of life

MISSION:

To provide quality goods at a savings; to provide quality services necessary for day to day living and to provide funding for afloat recreation needs and promote good morale.

ACCOMPLISHMENTS:

Ships Store Sales

Ships store sales of \$63.8 million generated profits of \$11.8 million for individual ship MWR programs. In addition, ships contributed \$1.2 million of its profits to central MWR for fleet-wide recreational programs.

Coffee Bars

The USS ESSEX (LHD 2) added a coffee bar to its ship, bringing the total number of coffee bars in the fleet to 12. Sales of coffee bars grew to equal 3.9 percent of total sales with over \$1.5 million in profits.

Branding Initiative

Branding was completed on four carriers including the USS GEORGE H. W. BUSH (CVN 77), the USS CARL VINSON (CVN 70), the USS JOHN C. STENNIS (CVN 74) and USS RONALD REAGAN (CVN 76), four large deck amphibious ships and five destroyers. This effort created tangible results of improving quality of life for fleet Sailors, bringing a level of service and standardization to fleet stores and generating additional profit for the crew. In addition, ships stores ashore Diego Garcia and San Nicolas Island, Calif., also received new branding.



Navy Blue Holiday Afloat Event

In conjunction with the Navy Blue Holiday events ashore, a sales event was marketed exclusively to afloat and deployed Sailors. Total sales for the event were \$531,000, an increase of \$329,000 or 78 percent over last year. There was also a 78 percent increase in the number of orders placed during the sale.



ROM 3

Successfully converted ROM II backroom functions, including maintenance of all catalog data and the ability to process special orders for ships, to ROM 3. The first monthly Automated Ships Store Afloat Catalog Listing / Automated Contract Bulletin update was also performed using ROM 3. The update included producing and distributing data needed by ROM II ships.

The USS MITSCHER (DDG 57) and USS OSCAR AUSTIN (DDG 79) were the first two ships to receive the ships stores new point-of-sale system, ROM 3. This software represents a leap forward in technology for afloat ships stores.

/NAVY LODGE

Over 12,000
room nights
in support of
wounded
service
members/
military medical
and their
families

MISSION:

The Navy Lodge Program provides safe, clean and affordable permanent change of station (PCS) accommodations worldwide.

ACCOMPLISHMENTS:

Navy Lodge Program

The Navy Lodge Program started 2014 with 39 operations and 3,129 rooms. It closed the year with 39 operations and 3,146 rooms. Reset projects were completed on 660 rooms worldwide. Family suites continued to be added, along with bathroom and kitchen upgrades and lobby remodels to support amenity changes to better serve PCS members and their families.



During 2014, 947,000 room nights were sold, which equates to an 83.0 percent occupancy rate, the highest percentage in over 20 years. This provided estimated revenue of \$75.6 million and a net profit of \$8.5 million. PCS guests increased 4.5 percent, based on room nights sold, as compared to 2013.

Over 12,000 room nights in support of wounded service members/military medical and their families were utilized at locations worldwide. Navy Lodges also provided additional support to local Installations as needed due to natural disasters.

The Department of Defense (DoD) Lodging Reservation Center received over 399,900 calls, a 9.0 percent increase over the previous year. On average, calls were answered and service transaction completed within 52 seconds or less.

PREMIER Guest Service

PREMIER Guest Service was implemented at all Navy Lodges worldwide. As a result, the Navy Lodge Program set an all-time high Guest Satisfaction Rating of 4.86 on a 5.0 scale with over 61,000 guest comment cards submitted.

LEED Award

Navy Lodge Little Creek-Fort Story, Va., was awarded the Leadership in Energy and Environmental Design (LEED) Silver certification from the U.S. Green Building Council for its building addition. LEED is the nation's preeminent program for the design, construction and operation of high performance green buildings.

Branding Initiative

Standards for Navy Lodge brand printed materials were developed. The identification of branding elements allow guests to experience a consistent product that emphasizes quality, value and savings as well as to remind guests that the Navy Lodge Program is part of the NEXCOM Enterprise.



APTS offered aggressive calling rates for the AT&T Direct Ocean Service Platform at .45 cents per minute

MISSION:

The Telecommunications Program Office acts as the Navy's program manager for all unofficial ashore and afloat personal telecommunications.

ACCOMPLISHMENTS:

Telecommunications Program Office

Fleet Cyber Command and Fleet Logistics Command named NEXCOM Telecommunications Program Office as the personal telecommunication leader going forward for overseas. The migration will be done in 2015 when upgrades are made to Wi-Fi, TV and phone.

Afloat Personal Telecommunications Service

The Afloat Personal Telecommunications Service (APTS) completed eight shipboard system rooms (six in the continental United States and two overseas). It also conducted one new LPD 17 class APTS installation and reinstalled APTS aboard USS THEODORE ROOSEVELT (CVN 71) following Refueling Comprehensive Overhaul.



Direct Ocean Service

NEXCOM's APTS program offered aggressive calling rates for the AT&T Direct Ocean Service Platform at .45 cents per minute. These rates were compared against Norwegian Cruise line at \$4.99 per minute and Disney cruises at \$6.95 per minute. AT&T Mobile is \$2.99 per minute and T-Mobile is at \$4.99 per minute when using personal cell phones.

Free Phone Cards

During the holiday season, 36,250 free \$10 phone cards were distributed to Sailors and Marines in more than 70 deployed units away from their homeports and those forward deployed to overseas ports. The phone cards were provided free to Sailors and were purchased using afloat commissions.

Wi-Fi Service

Free Wi-Fi services were added to 157 MWR buildings at 40 bases; Navy Medical Center Portsmouth, Va., and Navy Medical Clinic Point Loma, San Diego; and Fleet Combat Training Center. Free Wi-Fi was also installed at NEXCOM's Northeast Distribution Center, Suffolk, Va., and Southeast Distribution Center, Pensacola, Fla.; NEXCOM Annex building; NEXCOM Corporate Accounting Center and three NEX stores in the continental United States.

Wireless Advocates

To say "thank you" to the military, Wireless Advocates will donate \$1 from every cell phone activated from July 2014 - July 2016 to the Fisher House Foundation. Wireless Advocates provides mobile phone service through 115 NEX Mobile Centers.

NWU Type II/III
uniform
program
management
transitioned
from NAVFAC
to NEXCOM

MISSION:

To provide, in cooperation with its business partners, 100 percent availability of approved, certified, highest quality uniforms and professional tailoring at the lowest possible price for the military customer.

ACCOMPLISHMENTS:

Navy Working Uniform (NWU) Type II/III

Navy Working Uniform (NWU) Type II/III uniform program management transitioned from Naval Facilities Engineering Command (NAVFAC) to NEXCOM. With the program now into life cycle sustainment, the transition to NEXCOM provides significant synergy, alignment and value. NEXCOM's Uniform Product Management Group provides integration and life cycle support functions for Navy uniforms and for general purpose Organizational Clothing items.



Medal Racking Service

Electronic, in-store kiosks for medal and ribbon mounting “racking” services was expanded to 10 additional locations including NEX San Diego Fleet Store; NEX Mayport, Fla.; NEX Bethesda and Annapolis, Md.; NEX Rota, Spain; NEX Corpus Christi, Texas; NEX New Orleans, La.; NEX Bremerton, Wash.; NEX Kings Bay, Ga.; and NEX Yokosuka, Japan. The program has generated annual sales of \$290,000 and a total of 3,980 customer orders. It is competitively priced and allows customers error-free ordering using

a touch-pad screen to show the final product prior to ordering. The service is also available online at www.mynavyexchange.com/uniform.

Uniform Support

NEX NROTC/NJROTC Program supported over 4,634 midshipmen at 72 universities and over 89,156 cadets at 616 high schools representing \$6.9 million in sales.

The Uniform Support Center continued to provide uniform support for the Armed Forces Mortuary at Dover, Del., and to the service members forward deployed and away from NEX Uniform Shops.

UPMO assisted with the roll out of the fire retardant coverall (FRV) to the fleet and facilitated Integrated Product Teams (IPT) that integrated the design and testing of multiple high-visible uniform projects that included: women’s enlisted Service Dress Blues (Cracker Jacks), women’s Combination Cover, lightweight Navy Working Uniform (NWU) Type I, Navy fitness suits, Cold Weather Parka and women’s Service Dress White choker. UPMO provided logistics planning and support to multiple prototype uniform fit tests and wear evaluations and the anthropometric sizing study measuring evolutions.



A Navy
sizing
correlation
study began to
gather data to
get an up-to-
date snapshot
of the size and
shape of
today's Sailors

MISSION:

To perform research, development, testing, evaluation and engineering support for service/dress uniforms and protective clothing.

ACCOMPLISHMENTS:

Anthropometric Study

A Navy sizing correlation study began to gather data to get an up-to-date snapshot of the size and shape of today's Sailors. During the study, measurements of 3,200 - 4,000 Sailors will be gathered throughout Hampton Roads, Va. Once completed, a determination will be made if the sizing of military members in the Navy and Army are similar enough to use the data the Army gathered in 2010 in lieu of conducting Navy's own full scale scientific sizing study. The sizing information being gathered could, in the future, lead to new updated sizing patterns for uniforms, organizational clothing and personal protective equipment which will improve fit, appearance and comfort for Sailors.



Female Service Dress Blue Uniform and Dixie Cover for E-6 and below

In response to the Secretary of the Navy's vision for greater uniformity across Navy uniforms, NCTRF conducted several evaluations to develop an enlisted female Service Dress Blue uniform comparable to the males (jumper and 13-button trousers), including the Dixie cover. Options to improve stability, fit and cleanliness of the white hat were identified. Jumper patterns were updated and new Service Dress Blue slack designs (front zipper and side zipper with faux 13-button fronts) patterns were developed based on feedback from FY13 wear tests. Selection of the final version and development of the technical data package will be done in 2015.



Women's Uniform Design Review

A fleet-wide survey was initiated to capture female Sailors' uniform concerns. A stratified random sample of 15,833 Navy women was invited to complete the survey; 2,880 responded. Survey topics included background information and demographics; ratings of uniform components including frequency of wear, frequency of replacement and perceptions of durability, comfort, fit and professional image; preferences towards specific changes to uniform component types (i.e. slacks, coats, shirts, outerwear and skirts); and how

Sailors get information about uniforms, uniform regulations and where they purchase their uniforms. Findings were reported to Chief of Naval Personnel by the Navy Personnel Research, Studies and Technology.

Navy Commercial Uniform Certification and Quality Assurance Program

NCTRF managed 272 uniform items and fabrics and over 2,700 insignia items, through the Navy Uniform Certification Program. This ensured that uniform items sold via the NEX Uniform Shops meet or exceed Navy quality requirements. At the end of the year, 98 percent of uniform certifications and 85 percent of the insignia certifications were current. In addition, NCTRF conducted 120 production lot inspections representing 60,405 uniform items.

Lightweight Navy Working Uniform I

Chief of Naval Operations requested an evaluation of a Navy Working Uniform Type I with reduced heat stress. Two test candidate uniform fabrics were tested by the fleet: a 50/50 percent nylon/cotton blend, ripstop weave with no functional finish and a 50/50 percent nylon/cotton blend, twill weave with a wrinkle free functional finish applied on the fabric. Results indicated that both uniforms were an improvement over the current version. The ripstop uniform was preferred for comfort and suitability for wear in a hot environment while the twill performed better for durability, functionality, maintenance and military appearance. Final implementation of a change will be completed in FY15.



Flame Resistant Variant (FRV) Coverall

Working with the Defense Logistics Agency – Troop Support, NCTRF provided technical documents to begin the rapid FRV outfitting of the fleet. The purpose of the FRV coverall was to provide a flame/flash fire protective garment to Sailors for improved shipboard safety. The flame retardant treated (FRT) cotton used in the FRV coverall was selected as an existing/proven solution already used by the Navy in the repair locker coverall. An improved version of the FRV, incorporating arc flash protection and enhanced durability, was initiated and will continue into FY15.

Stitchless Seam Technology

Under Naval Supply Systems Command (NAVSUP) Small Business Innovative Research Programs, NCTRF worked with industry to identify alternative seaming methods suitable for a variety of garments and materials. The technical advancements in stitchless technology can contribute to enhanced protection and performance of military uniforms, reduced material costs and allow for more efficient and cost effective manufacturing processes. The result of the Phase I effort determined that ultrasonic welding may have the potential to seam entire garments and heat bonding could be used to attach slide fasteners, cuff tabs, rank tabs or sub-assemblies such as pockets. Phase II funding is expected at the end of 2015.

Combination Cover

In response to the Secretary of the Navy's vision for greater uniformity across Navy uniforms, NCTRF conducted a fit and wear evaluation of the male officer Combination Cover by female officers and chiefs. The male hat was modified by two different manufacturers to streamline the proportions of the male cap and make it more comfortable for female use. To test the concepts, a preliminary fit clinic was conducted in April 2014 and a preliminary wear evaluation with a small group of officers, chiefs and midshipmen in May 2014 in Washington, D.C. and Annapolis, Md. Following further modifications, another fit clinic was conducted in June 2014 in Newport, R.I. Selection of the final version and development of the Technical Data Package will be completed in 2015.



The Customer Satisfaction Index (CSI) survey, which shows how customers rate, reached a new high of 86 on a 100 point scale

MISSION:

To provide authorized customers quality goods and services at a savings and to support Navy quality of life programs.

ACCOMPLISHMENTS:

LATINA Style Magazine

For the third year in a row, *LATINA Style Magazine* named NEXCOM as one of the top 50 companies that are providing the best career opportunities for Latinas in the U.S. Of NEXCOM's more than 13,000 associates worldwide, 10 percent are Latina and nearly seven percent are Latina women.

Satisfaction Surveys

The Customer Satisfaction Index (CSI) survey, which shows how customers rate the NEX in a number of different areas including customer service, pricing, problem resolution and merchandise, reached a new high of 86 on a 100 point scale. The score of 86 is among the highest recorded for retailers in studies using the same methodology. The Associate Satisfaction Index (ASI) survey, NEXCOM's annual survey measuring associate job and command satisfaction worldwide, remained steady at 72 while headquarters/admin increased by one point to 76.



Change in Food Purchase Policy

DoD civilians, contractors and authorized base visitors are now authorized to purchase food and non-alcoholic beverage items sold at NEX locations, if consumed on base. This change aligns NEXCOM's policy with the overarching DoD policy, the Armed Services Exchange Regulation (ASER) as well as the policies of other military exchanges. The policy specifically excludes the sale of alcohol, tobacco and other items. In overseas locations, access and sales are subject to the limitations imposed by the host government.



Inventory Shrink

NEX locations and distribution centers achieved a 0.28 percent inventory shrink, 81 percent below the national average of 1.47 percent per the 2012 University of Florida National Retail Security Survey. NEX target stores reduced shrink by \$1.7 million. Primary focus was on improving the execution of physical inventory process, developing improved information reporting and product protection.

MILITARY STAR® Card

A new MILITARY STAR® Card application process was piloted at NEX Little Creek – Ft. Story, Va., which allowed associates to process new applications online and print a new MILITARY STAR® Card account number on a register tape.

Cooperative Efforts

NEXCOM continued its cooperative efforts with its sister military exchange services and Defense Commissary Agency (DeCA).

The military exchange services joint private label program, Exchange Select, identified 139 product items to be developed and revised the private label branding packaging elements. Annual Exchange Select sales for the combined military exchange services generated \$50.8 million in 2014.



In addition, NEXCOM launched the new private label nut/snack program, North Star Trading Company. Product sales through December 2014 exceeded 33,000 units and \$160,000. MCX and the Coast Guard Exchange have implemented the North Star Trading Company in its stores.

The military resale activities continue to collaborate on substantive Logistics and Distribution processes which generate efficiencies and improve the delivery of merchandise to customers worldwide.

The military exchanges continue to focus on identifying opportunities to collaborate on indirect procurements in an effort to leverage spend. Collaborative efforts in 2014 are projected to enhance the efficiency and reduce operating costs by over \$662,000 based on combining spend and negotiating more favorable terms and cost prices. Included in that savings is an estimated \$125,000 in administrative costs by not having to negotiate or administer “duplicate” contracts.

Employee Assistance Program

A new Employee Assistance Program (EAP) was made available to all NEXCOM Enterprise associates, spouses and household members. The program, provided through Magellan Health Services, allows for up to three counseling sessions “per incident” at no charge. Assistance is provided for grief or bereavement, marital and family problems, emotional issues, coping with change and burnout, substance abuse, stress relating to legal and financial concerns as well as limited legal and financial counseling services.



Headquarters Expansion

The NEXCOM headquarters building, located in Virginia Beach, Va., broke ground for a 33,000 sq. ft. addition. The new addition allows NEXCOM to replace approximately 9,000 sq. ft. of trailers, create much needed conference and planogram rooms and address merchandising and information technology personnel space deficiencies. It also brings 125 NEXCOM associates from its Human Resources, Loss

Prevention/Safety departments and the Navy Lodge Program into the headquarters building from other area office locations. The \$15 million non-appropriated fund construction project is scheduled to be completed in fall 2016.

/NEXCOM ENTERPRISE ASSOCIATES OF THE YEAR



Debra Swinford
Senior Merchandise Planner
NEXCOM Headquarters
Associate of the Year



Barbette Grisham
Customer Service Clerk
NEX Newport, R.I.
NEXCOM Enterprise
Associate of the Year



Maria Gonzalez
Navy Lodge Hawaii
Navy Lodge Program
Manager of the Year

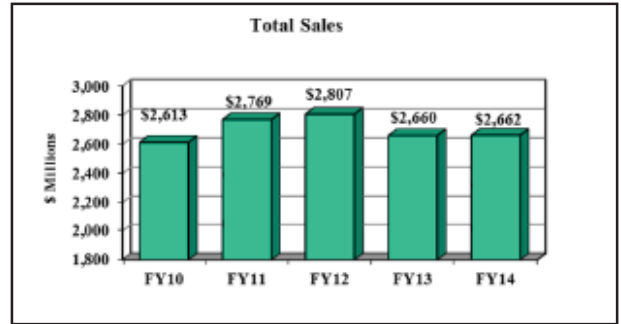


Jennifer Thurman
Front Desk Supervisor
Navy Lodge Monterey, Calif.
Navy Lodge Program
Associate of the Year

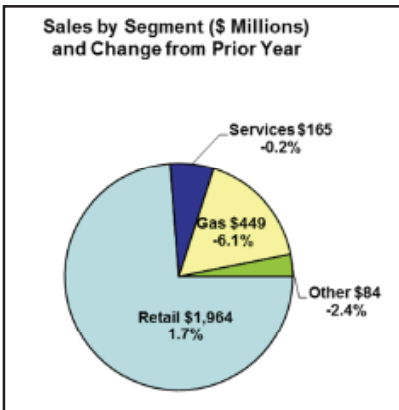
2014 FINANCIAL REVIEW

NEX

During FY14, the NEX implemented several innovative promotional strategies which brought greater savings to Sailors and their families. This strategy was implemented to drive footsteps into the stores after seeing a downward sales trend in the prior year. The strategy resulted in overall sales of \$2.7 billion, which were slightly higher than last year. Retail sales were above last year by 1.7 percent, service revenues were lower than last year by 0.2 percent and gas sales were down by 6.1 percent. Net income for FY14 was \$65.9 million compared to \$73.4 million in FY13. The biggest contributor to the total enterprise was the retail segment, accounting for 74 percent of total sales. Profit generated from the retail segment decreased by 4.5 percent largely due to a lower gross margin rate, which was impacted by higher promotional costs.



Sales from the services segment decreased 0.2 percent from the prior year, with the largest declines occurring in tailoring, laundry/dry cleaning and direct run food. Gasoline sales fell 6.1 percent due to falling prices at the pump. The average price per gallon was \$3.48 in FY14 compared to \$3.73 in FY13.

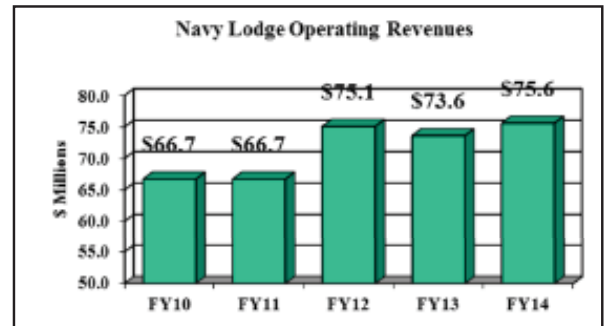


NEXCOM continues to provide a significant dividend to the Navy's Morale, Welfare and Recreation (MWR) funds. Based on the FY14 profits, dividends declared were \$46.6 million. From this amount, \$23.8 million will be paid to local installation MWR funds.

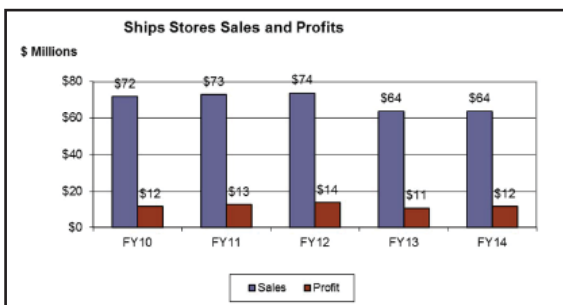
The financial condition of the NEX, as reflected in the Balance Sheet and Statement of Cash Flows, remains strong. Cash flow from operations was \$75.4 million this year. NEXCOM's store modernization program continues to be funded from operating cash flow. During FY14, \$72.9 million was spent on capital expenditures.

Navy Lodge Program

The Navy Lodge Program operates 39 Navy Lodges worldwide. The overall occupancy for FY14 increased to a record high rate of 83.0 percent as compared to 78.2 percent in the prior year. The average room rate increased to \$78.79 in FY14 compared to the average rate of \$77.84 in FY13.



The Navy Lodge Program continues to save travel dollars while generating cash flow used for remodeling existing facilities and building new facilities. During the year, 26 additional rooms were added due to the opening of an expansion at Navy Lodge Little Creek-Fort Story, Va. Net income for FY14 of \$8.5 million versus \$10.4 million in FY13. The FY14 results included a one-time write-off of \$2.5 million resulting from the cancellation of the Navy Lodge expansion project planned for Bethesda, Md.



Ships Stores Program

Ships stores operated aboard 146 commissioned Navy ships. The program generated \$63.8 million in total sales and \$11.8 million in net profit for FY14. Commanding Officers use profits generated by each ships store to procure new equipment for the stores and to provide direct support to their ship's MWR programs. In FY14, the ships stores generated profits of \$10.6 million for their use and \$1.2 million for Commander, Naval Installations Command (CNIC) to use in support of fleet ships without a ships store, such as submarines.

FINANCIAL SUMMARY

	For the Fiscal Years ended	
	January 31, 2015	February 1, 2014
<i>In Thousands of Dollars</i>		
Navy Exchange Program		
Income Statement:		
Total Sales	\$2,661,709	\$2,660,484
Income from Concessions, net	45,189	45,473
Contributed Services	90,769	88,533
Other Revenue	<u>2,009</u>	<u>3,192</u>
Total revenues	2,799,676	2,797,682
Cost of Sales	2,082,777	2,074,762
Selling, General and Administrative Expenses	<u>659,578</u>	<u>658,938</u>
Operating Income	57,321	63,982
Other Income - Net	<u>8,561</u>	<u>9,448</u>
Net Income	<u>\$65,882</u>	<u>\$73,430</u>
Profit Distribution:		
Dividends declared	\$46,603	\$51,891
Assets, Liabilities and Net Assets:		
<u>Assets:</u>		
Cash & Accounts Receivable	\$240,169	\$371,079
Merchandise Inventories & Other Current Assets	505,940	463,507
Property/Equipment & Other long-term Assets	<u>630,848</u>	<u>628,597</u>
Total Assets	<u>\$1,376,957</u>	<u>\$1,463,183</u>
<u>Liabilities and Net Assets:</u>		
Trade Accounts Payable & Accrued Liabilities	\$269,038	\$280,556
Other Current Liabilities	191,831	168,487
Long-term liabilities	348,192	264,407
Net Assets	567,896	749,733
Total Liabilities & Net Assets	<u>\$1,376,957</u>	<u>\$1,463,183</u>
<hr/>		
Navy Lodge Program		
Income Statement:		
Operating Revenue	\$75,572	\$73,568
Contributed Services	<u>5,463</u>	<u>5,045</u>
Total Revenue	81,035	78,613
General and Administrative Expenses	<u>72,636</u>	<u>68,322</u>
Operating Income	8,399	10,291
Other Income - Net	64	91
Net Income	<u>\$8,463</u>	<u>\$10,382</u>
Assets, Liabilities and Net Assets:		
<u>Assets:</u>		
Cash and Other Current Assets	\$128,463	\$110,464
Property and Equipment, net	<u>144,068</u>	<u>156,483</u>
Total Assets	<u>\$272,531</u>	<u>\$266,947</u>
<u>Liabilities and Net Assets:</u>		
Accounts Payable	\$3,821	\$6,700
Net Assets	268,710	260,247
Total Liabilities & Net Assets	<u>\$272,531</u>	<u>\$266,947</u>
<hr/>		
Ships Stores Program		
For the Fiscal Years ended		
	September 30, 2014	September 30, 2013
Ships Stores Sales	\$56,084	\$56,017
Vending Sales	<u>7,690</u>	<u>8,265</u>
Total Sales	<u>\$63,774</u>	<u>\$64,282</u>
Net Profit from Operations	<u>\$11,781</u>	<u>\$10,532</u>
Profit Distribution:		
Assessment for CNIC	\$1,218	\$1,481
Equipment for Ships Stores	\$946	\$409
Profits retained for Morale, Welfare and Recreation	\$9,617	\$8,642



NAVSUP
NAVAL SUPPLY SYSTEMS COMMAND
NAVY EXCHANGE SERVICE COMMAND