

# /NEXCOM ENTERPRISE



/NAVY EXCHANGE SERVICE COMMAND



**Navy Lodge**

/NAVY EXCHANGE SERVICE COMMAND



/NAVY EXCHANGE SERVICE COMMAND

**TPO**

Telecommunications Program Office

/NAVY EXCHANGE SERVICE COMMAND

**UPMO**

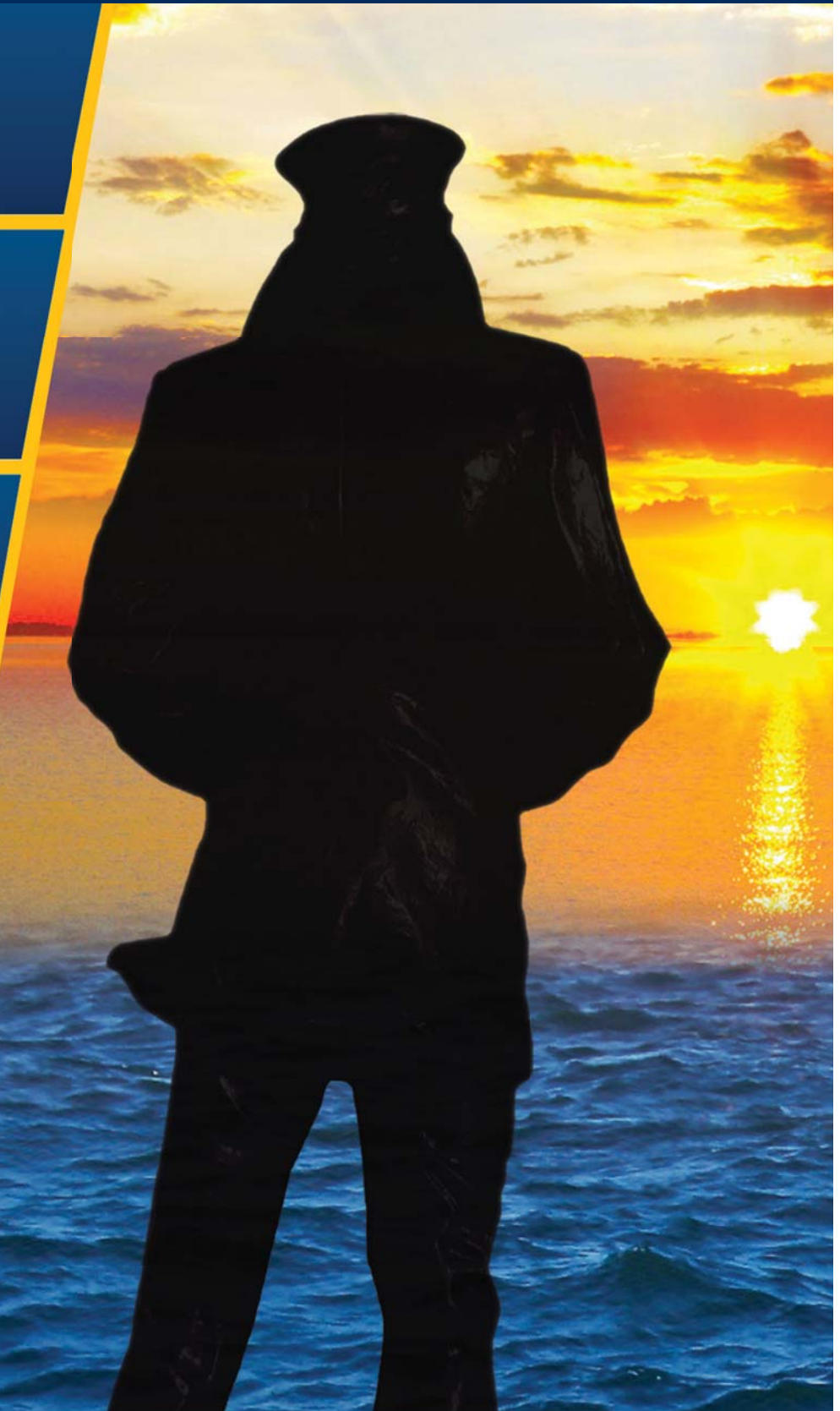
Uniform Program Management Office

/NAVY EXCHANGE SERVICE COMMAND

**NCTRF**

Navy Clothing and Textile Research Facility

/NAVY EXCHANGE SERVICE COMMAND



## 2013 ANNUAL REPORT

# FROM THE CEO



*The entire enterprise is well positioned to continue to deliver the quality, value and savings that our customers and Navy Lodge guests have come to expect and so richly deserve.*

The NEXCOM Enterprise consists of 101 Navy Exchange (NEX) facilities and over 300 stores worldwide, 39 Navy Lodges, 152 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 employs 14,000 associates, 23 percent of whom are military family members.

Total annual sales in 2013 were \$2.7 billion with a net profit of \$73.4 million which generated \$51.9 million in dividends for Morale, Welfare and Recreation (MWR) programs. We also generated \$54 million for reinvestments in NEXs to improve our customers' shopping experience and to remain competitive within the retail market. Total annual sales for Navy Lodges were \$73.6 million with a net profit of \$10.4 million. Ships store sales were \$64.3 million with profits of \$10.5 million that benefited our afloat Sailors.

The enterprise faced many challenges in 2013, many outside of our control, including government furloughs, sequestration and the still recovering economy. Even with all this uncertainty, the NEXCOM Enterprise pulled together to do what was right for our customers and guests. We didn't waver in our mission to provide our customers quality goods and services at a savings and to support Navy quality of life programs. Our customers know they can continue to rely on us no matter where they are located around the world.

With its customers and guests in mind, the enterprise moved forward with a number of initiatives and programs. A new NEX was opened in Jebel Ali, Dubai, for those military men and women in that part of the world. We continued with our branding efforts. NEX locations as well as ships stores received the new branding package as they were renovated, built or received an overhaul. Our second Navy Blue Holiday event was successfully implemented throughout the enterprise, allowing more of our military men and women participate in exciting giveaways and special offerings. We also installed free Wi-Fi in all our Navy Lodges and many of our NEXs worldwide. Our customers and guests responded by giving us an 85, an all-time high, on our Customer Satisfaction Index (CSI) survey.

NEXCOM also established a new Deputy Commander, Uniform Programs to better align and focus efforts on the testing, development, introduction, sales and sustainment of both retail and government-issue uniforms. This change had a positive impact in the rollout of the Navy's new Fire Retardant Variant coverall.

As we look ahead to 2014, the entire enterprise is well positioned to continue to deliver the quality, value and savings that our customers and Navy Lodge guests have come to expect and so richly deserve.

//s//

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

## MISSION:

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

## ACCOMPLISHMENTS:

The new Oracle Retail Point of Service (ORPOS) system was successfully deployed and was operating in 31 NEX locations in the Tidewater District for the Navy Blue Holiday season. Deployment included installation of new Fujitsu registers as well as software updates. In-store register training was given to over 500 store associates prior to each conversion. Some of the new features 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 scratcher discount process. Detailed planning was completed for a 2014 deployment to 183 NEXs in CONUS.

As part of the Chief of Naval Operations 21st Century Sailor and Marine initiative, CONUS NEXs. (including Hawaii and Guam) were directed to restrict the sale of all distilled spirits to main stores or dedicated package store facilities, limit the floor space dedicated to the sale and display of alcoholic beverages to no more than 10 percent of total retail floor space available, consolidate alcoholic products and displays at the rear of the facility, make available for sale, one-use alcohol detection devices in NEX facilities and limit the hours for the sale of alcoholic beverages to 0600 to 2200.

MyNavyExchange.com, the NEX web store, achieved sales that were 12 percent over last year's sales. Top on-line sellers were handbags, small electrics, athletic shoes, watches, sunglasses and ladies clothing. New brands and products including Uggs, Timberland, Alex & Ani, Michael Kors jewelry, Blue Lagoon Pearls by Mikimoto, Marc by Marc Jacobs, Movado watches, Le Creuset and Vitamix were added to the merchandise assortment. Major appliances were sold online and added \$160,000 in incremental business. Books from the Chief of Naval Operation's Navy Reading Program were also added to the NEX web store.



In alignment with Navy's emphasis on fleet readiness, NEX's worldwide launched the "A Better You" initiative that focuses on wellness. The initiative encompasses a variety of products sold in the NEX including food and beverages, vitamins, supplements, sporting goods, men's and women's active wear and athletic shoe sales.

Free Wi-Fi services are provided at over 50 NEX selling locations worldwide. Free Wi-Fi services are available throughout the NEX sales floor, at food courts and at select satellite selling locations such as barber shops and automotive service centers.

An Omni-Channel project working team was created to build a fully integrated, e-Commerce solution that will feature a more user-friendly, contemporary and competitive on-line retail site. Omni-channel retailing is a concept that focuses on delivering a seamless consumer experience by making integrated use of all available shopping channels including smartphones, tablets, computers, brick-and-mortar, direct mail, e-mail and social media. When launched in summer 2014, the new website will provide an online shopping experience that is on par with other top of the line retailers.

In alignment  
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In its second, year, the Navy Blue Holiday was enhanced and expanded to include a customer sweepstakes held both online and in stores. NEXs gave away more than \$100,000 in vendor-funded NEX Gift Cards to customers from October 2013 – January 2014.



As part of the NEX quality, value, savings initiative, an Everyday Low Price Program was launched for 233 items in the liquid laundry detergent, powder laundry detergent, bleach, laundry additives, bath tissue and paper towel categories. To make it easier for customers to find the merchandise with the new lower prices, yellow “New Lower Price” stickers were placed on the shelves next to the products.

Following industry trends, 500 credit card readers were installed on NEX vending machines worldwide. Since installation, sales have increased by 68 percent.

A change was made to the NEX Price Match Policy that allows price matching to Walmart.com, Target.com, Amazon.com, BestBuy.com, Sears.com, ToysRUs.com and BabiesRUs.com. The qualifying competitive online price may be presented on a mobile device such as a tablet computer or smartphone.

A new NEX Fleet Store was opened in Jebel Ali, Dubai, on Sept 10. The 6,000 square foot store, located on a compound occupied by the U.S. Navy, serves Sailors stationed in and around the Dubai area as well as military personnel transiting the area aboard ships.

NEX Pearl Harbor held a grand re-opening of its main store. The renovation included new signage, wider aisles, improved directional signs and many branding enhancements. New brands such as Bobbi Brown, Aveda, Bumble & Bumble, Murad, Anthony, Art of Shaving and Crabtree & Evelyn were added.

Construction projects were completed at NEX Bahrain; NEX Mini Mart/Gas Station, Norfolk, Va.; NEX Portsmouth, Va.; NEX Pearl Harbor; NEX Kittery, Maine; NEX Whiting Field, Fla.; NEX Wallops Island, Va.; NEX Mechanicsburg, Pa.; and NEX Philadelphia, Pa.

The first new prototype comprehensive food service program was launched at Naval Station Norfolk, Va., CEP-76 mini-mart/gas station. The store now offers various coffee options, fountain soft drinks, roller grill selections, hot breakfast/lunch sandwiches, nachos and real milkshakes.



Select NEXs worldwide sold a benefit ticket during the Navy Marine Corps Relief Society (NMCRS) fund drive. NEX patrons that made a \$5 donation to NMCRS received a ticket redeemable for a one time discount on select purchases. NEX customers donated \$358,000 to NMCRS, a 22 percent increase over last year.

In partnership with the Naval History Museum, a NEX-exclusive Naval History reusable bag was created. Due to the success of the bags, NEXCOM is expanding the program to customize reusable bags by region.

NEXs gave away more than \$100,000 in vendor-funded NEX Gift Cards to customers from October 2013 to January 2014

# /SHIPS STORE

## MISSION:

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

## ACCOMPLISHMENTS:

Ships store sales were \$64.3 million with profits of \$10.5 million. Ships retained a profit of \$9 million for its individual MWR programs and contributed \$1.5 million of its profits to central MWR for fleet-wide recreational programs.

The USS THEODORE ROOSEVELT (CVN 71), USS GEORGE WASHINGTON (CVN 73) and USS BOXER (LHD 4) opened coffee bars bringing the total number of coffee bars in the fleet to 11 ships. These 11 ships “brewed” \$1.4 million in sales, returning \$69,000 in grants to CNIC.

The Ships Stores Program continued to test and develop ROM 3 which will replace ROM II, the ships store legacy point-of-sale system. ROM 3 was successfully tested and piloted and received approval for deployment. Curriculum for Navy Education and Training Command schools was modified in preparation of first installations of ROM 3 on fleet ships, scheduled for 2014.

Ships stores aboard the USS THEODORE ROOSEVELT (CVN 71), USS GEORGE HW BUSH (CVN 73) and USS BATAAN (LHD 5) were rebranded. The branding provides a consistent NEXCOM design and merchandising packaging that is also present in NEXs and Navy Lodges. During the year, the branded prototypes of each ship class generated initial results showing a 30 percent increase in top line sales with increased profits to each ship’s recreation funds.

In conjunction with the Navy Blue Holiday events ashore, a dedicated sales event prior to Thanksgiving was held for the afloat Sailor and Marine as well as the opportunity for personnel to register to win \$100,000 in vendor-funded NEX Gift Cards giveaways. Total number of orders was up 58 percent with sales over \$297,000, a 24.1 percent increase over the previous year.

The Ships Stores Program distributed \$35,000 in rebates to ships as its share of profits from the Overseas Military Car Sales program.



A student mock ships store was funded and modernized at the Navy Supply Corps School, Newport, R.I., enabling new Supply Corps Officers the ability to apply enhanced hands-on learning environment of operating an afloat ships store.

The Special Order Program processed 1,097 different purchase order transactions with a total of over \$7.5 million in retail merchandise purchased for ships stores. The Ships Stores Program also processed 479 transactions for over \$895,000 for ships store retail merchandise; it processed 399 transactions for over \$275,000 in vending machine repairs and minor equipment purchases and processed 10 transactions for \$4,000 in office operating supplies in support of fleet operations.



The branded prototypes of each ship class generated initial results showing a 30 percent increase in top line sales with increased profits to ship’s recreation funds

# /NAVY LODGE

## MISSION:

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

## ACCOMPLISHMENTS:

The Navy Lodge Program started 2013 with 40 operations and 3,380 rooms. It closed the year with 39 operations and 3,129 rooms. Reset projects, including the addition of family suites, were completed on 372 rooms worldwide.

Navy Lodges provided support to wounded service members, military medical personnel and their families. Over 12,000 room nights were utilized at locations worldwide. Additionally, support was provided to local Installations in natural disasters.

Navy Lodge Program sold 934,000 room nights or 78.2 percent occupancy, the highest percentage in six years. This provided estimated revenue of \$73.6 million and a net profit of \$10.4 million. PCS guests increased 3.7 percent based on room nights sold compared to last year.

Most Navy Lodges host a weekly Manager's Reception to give each Navy Lodge General Manager the opportunity to interact with guests and for the guests to interact with each other.

Navy Inn in Millington, Tenn., transferred to the Installation to be operated by Navy Gateway Inn and Suites (NGIS) on October 1.

All 40 Navy Lodges worldwide offer free Wi-Fi to guests, which is available in guest rooms as well as the common areas within the Navy Lodge.

PREMIER Guest Service for Navy Lodge, as part of the PREMIER Suite of Learning Tools, was developed and implemented for all associates.

The breakfast program now includes healthier options, hot food, fruit and yogurt.

The DoD Lodging Reservation Center received over 360,000 calls, a 1.4 percent increase over the previous year. On average, calls were answered and service transactions completed within 51 seconds or less.

The PCS scratch-off cards, which offered savings to PCS families, resulted in over 15,900 room nights discounted and a savings of over \$129,000 to guests.



Guest Comment

Rating was  
4.84 out of 5.00,  
a new guest  
satisfaction  
record

The U.S. Green Building Council awarded the Navy Lodge North Island, Calif., a Leadership in Energy and Environmental Design (LEED) Gold certification and the Navy Lodge Gulfport, Miss., a LEED Silver certification. LEED is the nation's preeminent program for the design, construction and operation of high performance green buildings.

## MISSION:

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

## ACCOMPLISHMENTS:

To avoid price increases in NEXCOM's Afloat Personal Telecommunication Service (APTS) calling rates due to cancelled ship deployments and a sharp decline in the APTS usage minutes related to sequestration and Defense budget cuts, one of three AT&T satellite leases was cancelled. Analysis showed that over a two year period, only 36,599 minutes were used on a satellite servicing West Coast LSD ships transiting from San Diego to the Indian Ocean. By only using two satellites, NEXCOM realized a cost savings of \$105,000 and was able to maintain calling rates at \$.45 per minute, which has been in effect since 2005.

Installation and activation of free Wi-Fi service in all Navy Lodges worldwide and more than 50 NEX locations in CONUS was completed. Customer pay Wi-Fi service was completed in 91 percent of all CONUS Bachelor Quarters with the remaining locations to be completed in mid-2014.

Due to the lack of use, permanent party telephone services were removed from installations. Lack of usage was due to residents opting to use personal cell phones as their sole source of telephone service.

More than 35,000 AT&T prepaid phone cards were provided to deployed ships during the Navy Blue Holiday promotional event. Cards were provided free to Sailors and were purchased using TPO Afloat commissions.

NEX Mobile Centers were installed in 23 NEX locations in CONUS. NEX Mobile Centers offer customers wireless products, accessories and services from a variety of service providers including AT&T, Boost Mobile, T-Mobile and Verizon Wireless.

The APTS completed eight shipboard systems grooms, four installations and two removals. It received Navy approval for installation on LPD 17 class ships. Service on board all LPD/LSD class ships was terminated in order to remove antiquated systems and convert to equipment that allows for connection to Navy infrastructure.

More than  
35,000 AT&T  
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during Navy  
Blue Holiday



## MISSION:

Uniform Program Management Office (UPMO) provides, 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:

In order to better align and focus efforts on the testing, development, introduction, sales and sustainment of both retail and government-issue uniforms, a new Deputy Commander, Uniform Programs position was created. The Uniform Program Management Office (UPMO), Navy Clothing Textile Research Facility (NCTRF) as well as new code, Uniform Products Management Group (UPMG), report to this new position. UPMG will be staffed with two military billets, one to the Marine Corps to support NCTRF and the Product Management Infantry Combat Equipment in Quantico, Va., and a Navy billet at NEXCOM Headquarters.

Ten NEX Uniform Centers launched electronic kiosks offering medal and ribbon mounting “racking” services for commercial uniform insignia in 10 stores, generating \$21,000 in total sales with 343 customer orders. Stores included Uniform web store, NEX Norfolk, Oceana and Little Creek, Va.; NEX Pt Hueneme, Calif.; NEX Memphis, Tenn.; NEX Pearl Harbor; NEX Bangor and NEX Everett, Wash.; and NEX New London, Conn.

In coordination with U. S. Fleet Forces Command, UPMO assisted in the design and initial delivery of Fire Retardant Variant (FRV) coveralls to deploying units.

The NEX NROTC/NJROTC Program continues to support over 4,622 midshipmen at 72 universities and over 89,408 cadets at 616 high schools representing \$7.3 million in sales.

Successfully executed NEXCOM’s portion of a Defense Logistics Agency (DLA) inter-agency warranty action on defective female Enlisted Service Dress Blue (SDB) coats by assisting in an inspection of the entire inventory and returning 749 defective pieces to the vendor.

NEX Uniform Centers supported 4,743 Chief Petty Officer selectees at 335 events worldwide.

The Customer Call 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 Centers.



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## MISSION:

The Navy Clothing and Textile Research Facility (NCTRF), co-located at the Natick Soldier Systems Center in Natick, Mass., conducts research, development, test, evaluation and engineering support for Navy uniforms and personal protective clothing. NCTRF also provides similar support to other military services, governmental agencies and industry partners on a reimbursable basis.

## ACCOMPLISHMENTS:

NCTRF was tasked to outfit junior enlisted female personnel in the E-6 and below male Service Dress Blue (SDB) 13 button jumper uniform. NCTRF completed fit and wear test evaluations of a newly-designed women's SDB uniform, which mirrored the outward appearance of the male jumper uniform but addressed the unique fit aspect of a female uniform. Results of a wear test, focus groups and formal survey showed a favorable response for the SDB jumper design for females, although pattern modifications were needed for better fit. Detailed plans have been developed for continuation of the program through FY15 to evaluate SDB jumper uniforms for females in high concentration fleet locations.

Completed fit and wear testing of the men's combination cover and the men's E-6 and below Dixie hat by female officers and enlisted Sailors respectively. Data, collected through focus groups and surveys for overall design, specific design feature preferences, appearance and fit indicated both covers required a design modification to improve the fit for women officers and enlisted Sailors. The follow-on development and wear testing of these uniform items are planned for FY14-15.

An assessment of two Cold Weather Parkas (CWP): the CWP-Black and the CWP-Blue with liner A (fleece) and liner B (jacket) was conducted. Male and female officer and enlisted Navy personnel from four primary locations participated in the wear evaluation of the CWPs. Based on the test results, recommended adoption of the CWP-Blue in a black color with an optional fleece liner and the following design modifications: adapt CWP to work with the Navy Working Uniform (NWU) Type I black fleece liner, reduce the size of the hood and make it removable, add retractable reflective strips, and lengthen the CWP to assure that appearance is appropriate with the male SDB jacket.

U. S. Fleet Forces Command funded NCTRF to test and evaluate a mid-term hybrid FRV coverall to be issued to the fleet as organizational clothing. The FRV coveralls are manufactured in the utility coverall design using the Flame Retardant Treated (FRT) cotton material from the FRT coverall that is used by the ship's damage control parties. NCTRF provided the technical documentation to DLA Troop Support to begin a rapid FRV outfitting of the fleet beginning in Feb 2014.

Managed 264 uniform items and fabrics as well as over 2,700 insignia items through the Navy Uniform Certification Program to ensure uniform items sold via NEXCOM Uniform Centers meet or exceed Navy quality requirements.



NCTRF was tasked to outfit junior enlisted female personnel in the E-6 and below male Service Dress Blue 13 button jumper uniform

# /NEXCOM ENTERPRISE

## MISSION:

To provide authorized customers quality goods and services at a savings and to support quality of life programs for active duty military, retirees, reservists and their families.

## ACCOMPLISHMENTS:

NEXCOM continued with its branding efforts across the enterprise. Fifty-four NEX locations received new branding elements including signs and murals and revised store layouts with wider aisles, directional signs and strike points.

NEXCOM transitioned its 401(k) Plan to Prudential Retirement. Plan improvements include Prudential's Interactive Voice Response System and Customer Service Center that is available 24 hours a day, seven days a week with trained retirement counselors as well as a customized website at [www.prudential.com/NEXCOM](http://www.prudential.com/NEXCOM). Over 1,000 NEXCOM Headquarters associates as well as many in the field received training on the new plan.

Redesigned NEXCOM's section of the Department of Defense (DoD) [nafhealthplans.com](http://nafhealthplans.com) website to include HMO information and service areas. This was a significant service improvement for associates as they no longer have to go to separate websites to get HMO information.

NEXs and distribution centers achieved a 0.28 percent inventory shrink, 81 percent below the national average of 1.47 percent according to the 2012 University of Florida National Retail Security Survey. NEX target stores reduced shrink by \$2 million or 62.73 percent.

NEXCOM's EEO Office began processing complaints for the Commander, Navy Installations Command (CNIC) on October 1. In addition, the office gained full responsibility for processing CNIC legacy complaints.

NEXCOM's EEO Office began a campaign to improve the use of Alternative Dispute Resolution (ADR). The previous year, only two NEXCOM informal complaints made use of ADR. Since the campaign began in October 2013, NEXCOM increased the use ADR over 150 percent with a 75 percent resolution rate.

Maria Haynes, Regional Logistics Director at NEXCOM's Northeast Distribution Center, Suffolk, Va., was selected as one of the nation's top five Latina Executives of the Year by *LATINAStyle* Magazine. As one of the awardees, Haynes demonstrated excellence in leadership, commitment to the community, impact on the command's bottom line and created an environment where associates are encouraged to always look for the next big opportunity.



NEXs and  
distribution  
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# /NEXCOM ENTERPRISE

For the second year in a row, NEXCOM was recognized as one of *LATINAStyle* Magazine's Top 50 Companies in America for Latinas.

NEXCOM's PREMIER Customer Service Suite of Learning Tools received the American Society for Training and Development (ASTD) Excellence in Practice citation in the Sales Enablement category. The ASTD Excellence in Practice citations are presented for practices from which much can be learned, but which have not yet reached the award level. ASTD noted that it is very rare when a training program goes beyond alignment with strategic goals and actually becomes one of the strategic goals. The committee also noted that NEXCOM's Associate Satisfaction Index (ASI) survey was a great tool to monitor the training at store level.

The Design-Build Institute of America announced that the NEX replacement project at the National Naval Medical Center in Bethesda, Md., was selected as a National Merit Award Winner. According to the award submission, NEX Bethesda is "carved into existing topography, the structure fits comfortably into the same confined space that held the former exchange while offering better accommodations and greater efficiency. The project involved building a temporary shopping center, demolishing a 20-year-old facility and constructing the new NEX and adjoining parking structure."



To support the DoD Education Activity (DoDEA) Student Meal Program in both Europe and Japan, Horizon OneSource was implemented in local NEXs. This automated school lunch program allows parents and guardians the opportunity to pre-pay for their children's school meals.

NEXCOM hired a new full-time Energy Program Manager with Navy installation experience to develop a comprehensive energy management program. The initial focus was on measuring energy used in larger, high intensity/high cost facilities, meanwhile providing support to field activities in analysis of atypical energy and water bills.



A total of \$ 8.7 million in credit card fees was saved due to the Durbin Amendment, a new FDMS contract and Smart Routing. The 2011 Durbin Amendment required debit card (PIN and signature) transactions capped at effectively \$.24 per transaction.

A new NEXCOM Enterprise career web site was developed and launched that significantly upgraded the appearance, branding, content and ease of navigation. The heavily visited web site had 142,000 hits in one year.

For the second  
year in a row,  
NEXCOM was  
recognized as  
one of  
*LATINAStyle*  
Magazine's Top  
50 Companies in  
America for  
Latinas

# **/NEXCOM ENTERPRISE ASSOCIATES OF THE YEAR**



**NEXCOM Headquarters  
Associate of the Year**



**NEXCOM Enterprise  
Associate of the Year**



**Carla Vicens  
Navy Lodge Port Hueneme, Calif.  
Navy Lodge Program  
Manager of the Year**

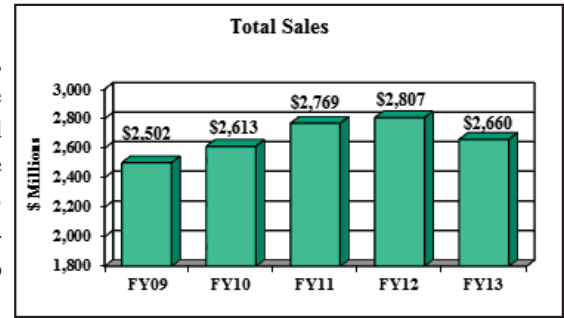


**William Sy  
Navy Lodge Mayport, Fla.  
Navy Lodge Program  
Associate of the Year**

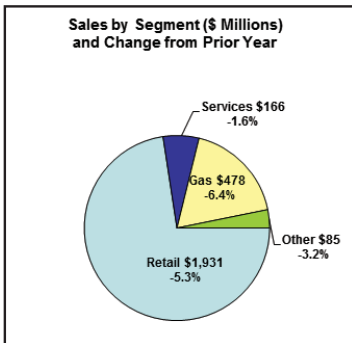
# 2013 FINANCIAL REVIEW

## NEX

During FY13, the NEX continued to focus on new initiatives to drive sales growth, increase gross margin, control costs and spend capital funds wisely. Despite these efforts and as a result of other external factors, such as sequestration and government shutdown, total sales decreased by 5.2 percent as compared to the prior year. The core retail store business saw sales decline from last year by 5.3 percent and service sales decrease by 1.6 percent. Gas sales decreased by 6.4 percent compared to FY12. Net income for FY13 was \$73.4 million compared to \$64.8 million in FY12.



The biggest contributor to the total enterprise was the retail segment, accounting for 73 percent of total sales. Profit generated from the retail business decreased by 4.7 percent as a result of the reduction in the sales. Gross profit margin on retail sales increased to 24.96 percent compared to 24.60 percent in FY12. Sales from the services segment decreased 1.6 percent from the prior year, with the largest declines occurring in auto service/labor and direct run food. Gasoline sales fell 6.4 percent due to a 2.3 percent decrease in the number of gallons sold. The average price per gallon was \$3.73 in FY13, compared to \$3.90 in FY12.

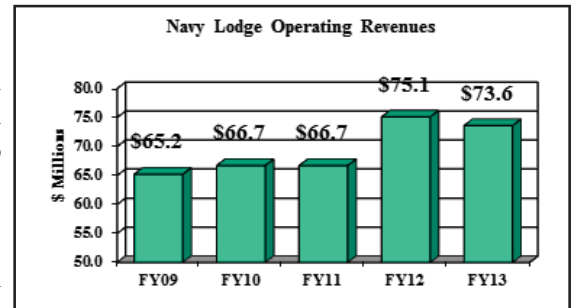


NEXCOM continues to provide a significant dividend to the Navy's MWR funds. Based on the FY13 profits, dividends declared were \$51.9 million. From this amount, \$23.6 million will be paid to local installation MWR funds.

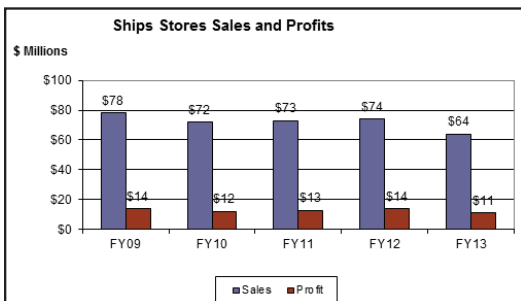
The financial condition of the NEX, as reflected in the Balance Sheet and Statement of Cash Flows, remains strong. Cash flow from operations was \$108.4 million this year. NEXCOM continues to fund its store modernization program from its operating cash flow. During FY13, \$54.0 million was spent on capital expenditures.

## Navy Lodge Program

The Navy Lodge Program operates 39 Navy Lodges worldwide. The overall occupancy rate for 2013 increased to 78.2 percent compared to 77.8 percent in the prior year. The average room rate increased to \$77.84 in FY13 compared to the rate of \$76.48 in FY12.



The Navy Lodge Program continues to save travel dollars while generating cash flow used for remodeling existing facilities and building new facilities. In FY13, the Navy Lodge Program managed the challenges of sequestration, Federal budget reductions and a 4 percent reduction in room nights available due to the transfer of the Navy Inn Millington to Commander, Naval Installations Command (CNIC) and the development of additional family suites by maintaining operating revenues just under the prior year level at \$73.6 million. Net income in FY13 of \$10.4 million compared to \$11.8 million in FY12.



## Ships Stores Program

Ships stores operated aboard 152 commissioned Navy ships. The program generated \$64.3 million in total sales and \$10.5 million in profit during FY13. 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 FY13, the ships stores generated profits of \$9.0 million for their use and \$1.5 million for CNIC to use in support of Fleet ships without a ships store, such as submarines. Sales and profits for FY13 declined due to reduced Fleet operations and sea days as a result of Congressional sequestration impact on Navy operating budgets.

## FINANCIAL SUMMARY

For the Fiscal Years ended

February 1, 2014                      February 2, 2013

*In Thousands of Dollars*

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### Navy Exchange Program

Income Statement:

Total Sales	\$2,660,484	\$2,807,117
Income from Concessions, net	45,473	44,540
Contributed Services	88,533	92,707
Other Revenue	<u>3,192</u>	<u>3,568</u>
Total revenues	2,797,682	2,947,932
Cost of Sales	2,074,762	2,206,423
Selling, General and Administrative Expenses	<u>658,938</u>	<u>680,486</u>
Operating Income	63,982	61,023
Other Income - Net	<u>9,448</u>	<u>3,749</u>
Net Income	<u>\$73,430</u>	<u>\$64,772</u>

Profit Distribution:

Dividends declared	\$51,891	\$45,938
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Assets, Liabilities and Net Assets:

Assets:

Cash & Accounts Receivable	\$371,079	\$350,365
Merchandise Inventories & Other Current Assets	463,507	451,289
Property/Equipment & Other long-term Assets	<u>628,597</u>	<u>555,727</u>
Total Assets	<u>\$1,463,183</u>	<u>\$1,357,381</u>

Liabilities and Net Assets:

Trade Accounts Payable & Accrued Liabilities	\$280,556	\$307,319
Other Current Liabilities	164,128	154,636
Long-term liabilities	268,766	259,476
Net Assets	<u>749,733</u>	<u>635,950</u>
Total Liabilities & Net Assets	<u>\$1,463,183</u>	<u>\$1,357,381</u>

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### Navy Lodge Program

Income Statement:

Operating Revenue	\$73,568	\$75,099
Contributed Services	<u>5,045</u>	<u>5,857</u>
Total Revenue	78,613	80,956
General and Administrative Expenses	<u>68,322</u>	<u>69,257</u>
Operating Income	10,291	11,699
Other Income - Net	<u>91</u>	<u>124</u>
Net Income	<u>\$10,382</u>	<u>\$11,823</u>

Assets, Liabilities and Net Assets:

Assets:

Cash and Other Current Assets	\$110,464	\$99,411
Property and Equipment, net	<u>156,483</u>	<u>157,330</u>
Total Assets	<u>\$266,947</u>	<u>\$256,741</u>

Liabilities and Net Assets:

Accounts Payable	\$6,700	\$6,876
Net Assets	<u>260,247</u>	<u>249,865</u>
Total Liabilities & Net Assets	<u>\$266,947</u>	<u>\$256,741</u>

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### Ships Stores Program

For the Fiscal Years ended

September 30, 2013                      September 30, 2012

Ships Stores Sales	\$56,017	\$63,607
Vending Sales	<u>8,265</u>	<u>10,354</u>
Total Sales	<u>\$64,282</u>	<u>\$73,961</u>

Net Profit from Operations	<u>\$10,532</u>	<u>\$13,540</u>
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Profit Distribution:

Assessment for CNIC	\$1,481	\$1,793
Equipment for Ships Stores	\$409	\$768
Profits retained for Morale, Welfare and Recreation	\$8,642	\$10,979



NAVAL SUPPLY SYSTEMS COMMAND  
NAVY EXCHANGE SERVICE COMMAND