

2016 ANNUAL REPORT

/NEXCOM ENTERPRISE



NEX

NAVY LODGE

NCTRF

TPO

SHIPS STORE

UPMO

FROM THE CEO



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

The Navy Exchange Service Command (NEXCOM) Enterprise is comprised of 100 Navy Exchange (NEX) complexes and over 300 stores worldwide, 39 Navy Lodges, 133 ships stores, the Uniform Program Management Office (UPMO), the Navy Clothing and Textile Research Facility (NCTRF) and the Telecommunications Program Office (TPO). Our worldwide enterprise boasts nearly 14,000 associates, over 30 percent of whom are military affiliated being either family members or veterans.

2016 was a year of celebration, beginning with NEXCOM's 70th anniversary on April 1 and ending with the "We Believe" campaign over the holidays. There, of course, was a great deal of hard work in between these celebrations. Many of these noteworthy accomplishments are detailed within this report.

On April 1, 1946, the Department of the Navy officially established the Navy Ships Store Office (NSSO), the precursor to what is now NEXCOM. We've come a long way since those early days of bumboats and slop chests and have grown into a world class, worldwide organization. We deliver what our military families need, wherever they are stationed. In addition, 70 percent of our profits support Morale, Welfare and Recreation (MWR) to enhance Navy quality of life programs. This amounts to more than \$2.5 billion given back since 1946.

Our customers continue to tell us that they are very satisfied with the support we provide to them. Our annual Customer Satisfaction Index (CSI) survey showed that patrons rated us with an outstanding score of 86, same as 2015. NEX locations in the continental United States and overseas locations saw no decrease from 2015 either, receiving scores of 87 and 81 respectively. The key drivers of satisfaction are consistent with the "basics" of business – pricing, merchandising, sales flyers and customer service. In addition, customer preference on product value leans toward moderately priced goods of moderate quality.

Along with many civilian retailers, we had a challenging year. Our total annual sales in 2016 were \$2.4 billion with a net profit of \$45.8 million which generated \$32.6 million in dividends for MWR programs. We will also invest \$113.5 million in NEX stores to improve our customers' shopping experience and to remain competitive within the retail market. We continue to expand our online presence to cater to all our customers no matter where they live around the world. Total annual revenue for Navy Lodges was \$79.3 million with a net profit of \$10 million. Ships store sales were \$61.3 million with profits of \$10.7 million.

While our look may have changed over the past 70 years, our mission and commitment to PREMIER customer service has not and that is evident each and every day at each and every location. As we look forward into 2017, we will continue take every opportunity to focus our efforts, lean in and get the job done!

A handwritten signature in black ink that reads "R. J. Bianchi".

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



MISSION:

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

ACCOMPLISHMENTS

NEX Romania held a ribbon cutting ceremony on June 8 to open its new 550 sq. ft. mini mart. The store carries health and beauty aids, household, sports nutrition, chips, beverages and general groceries as well as a small electronics section and uniform assortment. The new NEX, located in the Housing and Dining facility, is the first cashless store; it only accepts Master Card, Visa and the MILITARY STAR® Card.



NEX Djibouti cut the ribbon to open its new 10,000 sq. ft. store on November 29. The new store is 6,000 sq. ft. larger than the old location allowing nearly all departments including clothing, uniforms, electronics, food, health and beauty aids and sporting goods to expand. The overall sales floor more than doubled while refrigerated display space increased by nearly 140 percent. Sales for the first day were \$124,164 with 3,300 transactions.

NEX Imperial Beach, Calif., Clearance Center opened on November 4. Featuring more than 15,000 square feet of deals, customers can find up to 75 percent off apparel and merchandise from national retailers including Gap and Banana Republic. Sales for the first three days were more than \$119K with a gross margin of 40 percent. The main store also saw more than a 100 percent increase in sales volume and the Subway and barber shop had a threefold increase in volume during the sales event.

NEX Little Creek, Va., opened its new Car Care Center on November 14. The state-of-the-art facility features Wi-Fi access, an auto dealership-like service area, floor level alignment racks to accommodate low ground clearance vehicles, a pod-like service counter for a more personal customer interaction and auto-detailing service. It has 20 service bays, twice the number that was in the previous facility built in 1960. The Car Care Center is conveniently located across the street from the NEX and commissary so customers can go shopping while they wait for their car to be serviced. The opening of this Car Care Center marks the first step in NEXCOM's commitment to reinvigorate and renew this service program.

Several NEX locations, in partnership with NEX vendor partners, hosted NEX Cares events for military families. These events offered children under the age of 12 with a military deployed parent the opportunity to assemble and decorate a care package for their loved one using a \$20 NEX gift card. Afterwards, each child brought their completed box to the NEX Cares truck to ship their care package for free to their parent.



NAB Coronado, Calif., opened the first Jack in the Box restaurant on a Naval installation on August 11. The Jack in the Box operation was built in a former McDonald's space. Sales in the first half hour were \$500.

“All the best choices at a fraction of the cost. No better customer support anywhere and I’ve used Navy Exchanges all over the world!”

- NEX customer

Six new Micro Markets opened during the year at NAS Jacksonville, Fla., VP-30 Squadron, Hangar 1001; Naval War College at NS Newport, R.I.; NS Mayport, Fla., HSM-46 Squadron, Hangar 1552; NAS Corpus Christi, Texas, CCAD Bldg. 8; and in Millington, Tenn., at Navy Personnel Command and Navy Recruiting Command. Micro Markets are designed to be placed in Navy facilities where there are a large number of people but not a lot of food options available or time is



limited. These self-service operations are open 24-hours per day, seven days a week and take both cash and credit card payments. The NEX Micro Markets sell a variety of food including heat and serve meals, sandwiches, pastries, muffins, coffee and cappuccino as well as many healthy choice food items such as salads, fruit and snack options. Micro Market sales for the year were \$1.1 million.

NEXCOM’s web store launched its Ship-to-Store initiative with DHL shipping. The Ship-to-Store program allows customers to place an order on myNavyExchange.com and have it sent free to their local NEX for pick up. The average delivery time to a stateside NEX is 3 - 5 days while the average delivery to an overseas NEX is 7 - 10 days. In the continental United States, there is Ship-to-Store capability in every state that has a NEX and well as many overseas locations.

A ribbon cutting ceremony was held January 10 at the Pentagon for the Fresh Kitchen by Robert Irvine. This is the first restaurant by Chef Robert Irvine to open on a military installation. Fresh Kitchen offers Pentagon employees three food offerings. Fresh Express, which serves grab and go breakfast and lunch items including espressos, ready-made sandwiches, fruit, yogurts, healthy snacks and more; Fresh Kitchen, a full-service dining room that offers breakfast and lunch options including freshly



made Neapolitan-style pizza and build-your-own burgers; and Fresh Catering, which offers a creative selection of favorite food items available for meetings or group gatherings. As an added convenience, employees can order take-out from Fresh Kitchen for in person pickup via the Fresh Kitchen app or online via their website. Sales were \$36,000 in the first four days of business.

Homecoming events were sponsored on both the east and the west coasts to give customers the opportunity to make a welcome home sign for a loved one returning from deployment. NEX vendor partners provided supplies to make the signs as well as sponsored a variety of activities such as beauty consultations, free manicures, costume characters and product demonstrations and giveaways.

“While deploying all over the world has always been rewarding, in terms of culture, history and action, sometimes, I just needed a ‘piece of home.’ Walking into a NEX has always given me that.”

- NEX customer



The Low Price Guarantee Program was re-launched for categories within the household department. Categories in this program are liquid and powder detergent, fabric softeners, bleach, bath tissue and paper towels. Low Price Guarantee is a guarantee to customers that the NEX will have the best price in town on their weekly shopping list items. Low Price Guarantee includes top 500 items in household, infant and personal care categories.

In the absence of a furniture store, Ashley Furniture special order kiosks were opened at NEX Oceana and NEX Norfolk, Va., for customers to purchase furniture. The kiosks featured the entire Ashley Furniture assortment complete with retail prices and product availability. Deliveries are made within seven days of order. Sales at NEX Oceana were \$25,000 while sales at NEX Norfolk were \$40,000 for the year. Ashley Furniture resets were completed at Home Galleries at NEX Pearl Harbor; NEX Yokosuka, Japan; NEX San Diego; NEX Jacksonville, Fla.; and NEX Guam so customers in these locations have the opportunity to see the entire Ashley Furniture assortment.

The “A Better You” program focused on getting moving and advocating healthy living and outdoor lifestyle for children in the military community. In an effort to motivate kids to be active, NEX’s around the enterprise held a Jumping Jack Challenge for kids 12 and under. The goal for the event was 70,000 jumping jacks in celebration of the NEX’s 70th anniversary. In total, 910 kids completed 183,198 jumping jacks.

North Star Trading Company private label water program was launched in June at NEXs, Micro Markets and vending machines across the enterprise. Sales of North Star Trading Company were \$426,948 for the year.

The Trend Right, Price Right campaign was created to focus on opening price point trendy merchandise in clothing, handbags and shoes. This campaign focused on the customers’ desire for greater value and less focus on luxury or better national brands.



In the December 2016 issue of a leading consumer product magazine, NEXs were tied for 2nd place with a score of 93 by customers purchasing digital merchandise in walk-in retail stores. Customers rated stores on product quality, customer service, price, selection and ease of purchasing and checkout.

The “We Believe” campaign allowed NEXs to give back to its military members and their families by recognizing the selfless contributions they make every day. Working in partnership with the NEX vendor community, NEXs gave away toy wish lists, holiday dinners and \$5,000 in NEX Gift Cards to its military customers. The NEX also surprised random customers by paying off their layaways.

The Pearl Harbor Distribution Center relaunched its Home Delivery service in October 2016 to strengthen and expand its furniture and appliance business on the island.

/SHIPS STORE

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

Sales of coffee bars grew to equal 12 percent of total sales with over \$2 million in profits generated for Sailor quality of life. Currently, there are 15 ships with coffee bars in the fleet.

Twenty-two ships stores were branded, receiving merchandising resets, visual cues and training. These ships included USS SAN JACINTO (CG 56), USS CARTER HALL (LSD 50), USS SAN DIEGO (LPD 22), USS MAKIN ISLAND (LHD 8), USS AMERICA (LHA 6), USS DECATUR (DDG 73), USS PINCKNEY (DDG 91), USS SAMPSON (DDG 102), USS STERETT (DDG 104), USS MONTEREY (CG 61), USS EMORY S. LAND (AS 39), USS MAHAN (DDG 72), USS COLE (DDG 67), USS ASHLAND (LSD 48), USS GERMANTOWN (LSD 42), USS GREEN BAY (LPD 20), USS JAMES E. WILLIAMS (DDG 95), USS JOHN P. MURTHA (LPD 26), USS MITSCHER (DDG 57), USS NEW YORK (LPD 21), USS COMSTOCK (LSD 45) and USS ZUMWALT (DDG 1000).



Thirty-six ships received the ROM 3 maintenance upgrade from ROM II including two CVNs, six CGs, 19 DDGs and nine “L” decks. ROM 3 is the ships store point-of-sale program that is replacing ROM II. The total number of ships with ROM 3 is 95.

A ships store fixture “chapter” was developed for the online shipboard catalog, giving the ships a central location to identify fixture items, and ordering information. The catalog went live in summer 2016.



Orders for the Navy Blue Holiday Afloat Sailor and Marine sales event were up 45 percent over 2015. In addition, 75 percent were first time NEX online shoppers. Sailors and Marines placed larger orders for pick up from their local NEX than the previous year.

MISSION:

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

ACCOMPLISHMENTS

Guest room and lobby reset projects were completed at Navy Lodge Sigonella and Naples, Italy; New London, Conn., Memphis, Tenn., North Island, Calif.; and Whidbey Island, Wash. Family suites continue to be added as well as bathroom and kitchen upgrades and lobby remodels to support ever changing trends and to better serve permanent change of station (PCS) members and their families.



The Navy Lodge PCS scratch cards utilized by military members resulted in over 22,400 room nights discounted and a savings of over \$199,000. PCS room nights sold increased 2.4 percent compared to the previous year.

Navy Lodge Program occupancy rates were 84.3 percent, a record high percentage. Overall guest satisfaction rating was 4.86 out of 5.00.

The Department of Defense Lodging Reservation Center, operated by the Navy Lodge, received over 481,000 calls, which were answered within 59 seconds or less on average.

Navy Lodge Naples, Italy, held a ribbon cutting ceremony on June 6 to officially open its newly renovated spaces. The Navy Lodge reset 96 rooms at Village Forum West, completed a reset of 24 rooms in the apartments, installed a fitness room and created a breakfast room.

Navy Lodge San Diego, Calif., held a ribbon cutting on October 26 to open its new lobby building which was designed to meet the social needs of today's guests with a breakfast area and an outdoor relaxation zone.



Navy Lodge Rota, Spain, held a ground breaking ceremony on June 9 for a brand new building that will add 50 two-bedroom suites and an expanded lobby. Also being constructed is a pool, a multi-purpose play court for basketball and other games, a picnic area and a courtyard.

Navy Lodges North Island and San Diego, Calif.; Staten Island, New York and Little Creek, Va., were recognized by Trip Advisor for 2016 Certificate of Excellence for superior service.

/NAVY LODGE

"Thank you
for a five star
treatment from
your staff!
Keep up the
great work!!
Much
appreciated!!!"

Navy Lodge
Moffett Field,
Calif., guest

Navy Lodges Atsugi, Yokosuka and Sasebo, Japan, now accept pets. Dogs and cats up to 50 pounds in weight can stay at many Navy Lodges when traveling with their owner.



Guests utilized over 18,000 room nights at Navy Lodges worldwide for treatment of support for wounded warriors.

The Navy Lodge Holiday Promotion offered 20 percent off the regular room rate at 24 select locations from November 23, 2016 to January 1, 2017. Over 5,300 room nights were discounted at a savings of over \$76,500 for its guests.

The breakfast program continued to expand with the addition of healthier options and hot items such as oatmeal, fruit and yogurt. Breakfast seating areas were also added in many locations.



MISSION:

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

ACCOMPLISHMENTS

Over 32,500 free \$10 AT&T phone cards were given to Sailors and Marines aboard 62 ships that were away from their homeports or forward deployed to overseas ports during the holiday season.

Service members and their families stationed at Naval Station Guantanamo Bay received fully upgraded telecommunications services including Wi-Fi, cellular phones, landline phones and cable TV. TMobile constructed a mobile phone network at no charge to the government on Guantanamo Bay in 21 days. Land line phone calling was transitioned from a satellite service to a fully operational prepaid card calling capability with AT&T which lowered long distance phone call cost from 12 cents per minute to 4.5 cents per minute. The NEX Mobile Center set a new military channel record for Wireless Advocates with 298 activations in a single day.



To help NS Guantanamo Bay, Cuba, residents stay in touch with family and friends during Hurricane Matthew, ViaSat provided free Internet prior to, during and immediately after the hurricane. This resulted in over 2,000 free sessions totaling more than 9,100 hours.

AT&T commercial long distance calling on NS Guantanamo Bay, Cuba, is fully operational for prepaid card calling. Direct Inward Dialing (DID), which permits commercial businesses to receive calls from outside Guantanamo Bay is available to commercial contractors at no cost.

Djibouti's Internet vendor, Multi-vision, reduced its Internet pricing by 20 percent to maintain competitiveness. Multi-vision also provided free Internet to military members over the 3-day Thanksgiving holidays.

A new shipboard worldwide pre-paid card was implemented in April to provide Sailors aboard ships with the same functionality as shore based calling cards, i.e.: auto-recharge, online recharge and premium pin-less dialing.

All personal telecommunications services for residents and visitors in Guantanamo Bay, Cuba; Sigonella and Naples, Italy; and Rota, Spain, transitioned from base Communications Offices to a NEXCOM contractual and program managed business.

In the continental United States, Wi-Fi and Voice Over Internet Protocol (VOIP) upgrades were completed in 388 Navy Gateway Inns and Suites buildings and 22 Navy Lodges. Overseas, Wi-Fi and VOIP upgrades were completed in 235 Navy Gateway Inns and Suites buildings and eight Navy Lodges.

MISSION:

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

ACCOMPLISHMENTS

The Navy Uniform Anthropometric Correlation Study conducted by Anthrotech over the past 18 months was completed. The study was done to determine the feasibility of using Army uniform anthropometric data for Navy uniform patterns and sizing updates. The study concluded that Navy technicians may use the Army's robust data (94 body measurements) to improve the fit and sizing of Navy uniforms. The first patterns to be updated using the anthropometric database will be for the female service khaki skirt and slack.



NEXCOM Uniform Program worked with Uniform Matters Office to develop a fielding plan for the Navy Working Uniform (NWU) Type III. NAVADMIN 174/16 announced that the Navy will transition from the NWU Type I to the NWU Type III as the Service's primary shore working uniform with a mandatory wear date of October 1, 2019.

The rollout of the Alternate Combination Cover (ACC) for Chiefs and Officers including U.S. Naval Academy, NROTC Midshipmen and NJROTC cadets was completed.

The Improved Flame Resistant Variant (IFRV) coverall was authorized as the approved fleet organizational clothing flame resistant replacement for the current, less durable, flame resistant variant (FRV). NEXCOM Uniform Program conducted wear tests on over 700 Sailors serving aboard various platforms during deployments. Wear test participants affirmed significant improvements in durability, comfort, appearance, mobility and fit. The transition from FRV to IFRV is expected to occur in FY18.

NEXCOM completed rollout of the Lightweight NWU in early FY17.

Recruit Training Command (RTC) began issuing White Hats (Dixie Cups) to females in April to be worn with the Enlisted Service Dress White uniform.



The development of the female Chief and Officer Service Dress White (Choker) uniform was completed. It was made available at NEX Uniform Shops starting in January 2017.

The National Defense Authorization Act (NDAA) of 2017 directed all military services to provide Berry Amendment compliant running shoes to Navy recruits. The legislation requires Department of Defense to issue Berry Compliant athletic shoes to initial entry recruits in lieu of providing a monetary allowance. Berry Amendment compliant shoes must be furnished to all military services' recruits by 2019.

MISSION:

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

ACCOMPLISHMENTS

For the first time ever, NEXCOM's Uniform Program obtained the designation as Technical Warrant Holder for Navy uniforms. As Technical Warrant Holder, NCTRF will exercise technical authority, certification authority and oversight of Navy uniforms as well as General Purpose Organizational Clothing.

As a continuation to the Flame Resistant Variant (FRV) program for U.S. Fleet Forces (USFF), a wear test of two enhanced FR fabrics in two different configurations (coverall and flight suit designs) was conducted on the USS KEARSARGE (LHD 3) and USS NEWPORT NEWS (SSN 750). Results showed that the IFRV was a significant improvement in durability, comfort and appearance over the FRV coverall. Sailors preferred the coverall design, found the FR fleece highly acceptable and requested several design changes, which were incorporated into the Technical Data Package. The IFRV will roll out in FY18.



As a follow up to the FRV coverall effort, USFF surveyed the Fleet to determine preference for a two piece FR uniform in addition to the coverall. Fleet survey and focus group results indicated a desire for a professional-looking working shipboard uniform. In FY16, NCTRF collaborated with USFF to define the scope of the program. Design concepts presented included “heritage” and “modern” motifs, which were later updated to tactical two piece designs

with an “untucked” shirt and tactical working pants. Uniforms with male and female design features will be in khaki for E7 and above and a combination of light and dark blue shirts with dark blue bottoms for the enlisted community. FY17 goals are to finalize designs and conduct a user evaluation of ~300 participants on the East and West coasts.

In response to Navy’s request for a more modernized look for the Recruit Training Center’s (RTC) sweat suit, NCTRF worked with manufacturers to develop and test a design incorporating the reflective NAVY logo found in the Physical Training uniform. Certifications were completed for the sweatpants and hooded and crewneck sweatshirt. The new items were introduced at RTC third quarter.

NCTRF technicians evaluated commercially-available Berry-compliant, non-metallic safety toe caps for use in Navy protective footwear as current steel toed boots are considered by some Sailors to be heavy and uncomfortable when compared to non-metallic safety toed boot offered in the commercial market. Boots with non-metal toe cap were distributed to several ships for a wear evaluation and subsequent survey in FY15. The results of this wear evaluation were assessed as was

benchtop testing of the thermal properties of differing toe cap materials. This research concluded with a recommendation to maintain the Navy standard of steel toe caps in all safety footwear.



As part of the on-going Small Business Innovation Research (SBIR) regarding seam engineering-stitchless seam technology, prototype garments were field tested in FY16 with positive reviews for form, fit and function. Most importantly, the experimental seams withstood the rigors of the initial field evaluation. Developmental work will continue throughout FY17. The objective is to identify alternative seaming methods that may contribute to enhanced protection and performance of military uniforms, reduce material costs and allow for more efficient and cost effective manufacturing processes.



Technical support was provided to DLA-Troop Support for the procurement of newly developed Navy items including the male and female Service Dress Blue jumpers and trousers/slacks, the Service Dress White jumper for males and females, the Running Suit, the Dixie Cap and the Lightweight Navy Working Uniform.

In order to assess the current Quality Assurance (QA) practices employed by NCTRF to control the production of Navy uniform items procured by NEXCOM, leading retail manufacturers were surveyed for best practices and plant visits were conducted to evaluate effectiveness of their QA procedures. Recommendations will be used to revise NCTRF's QA process to include updated Navy Certification Bylaws as well as key parameters and processes that can be included in the quality control process for manufacturers to effectively deliver higher quality U.S. Navy uniforms.

NCTRF technicians developed and certified the Command Senior Chief (CMDCS) rating badge, female submarine rating badges, female wool serge rating badges, Special Warfare Combatant-Craft Crewman (SWCC) insignia (regular size metal and embroidered) and Don't Tread on Me (DTOM) and USA reverse flag badges (IR and non-IR versions).

Technical support was provided to all of the Services including design/pattern work and certification for all USMC field and dress clothing including development of the Officer and Enlisted Female Dress Blue Choker coat and plate carrier armor; biophysical, textile and flame/thermal testing for USA, USAF, and USMC; and specifications, patterns, QA and supply support for Joint Project Manager Protection. In addition, NCTRF is responsible for the design, development and execution of a new government-owned and operated plant for production of chemical-biological protective garments and equipment at Pine Bluff Arsenal.



Technical support was provided to NEXCOM Uniform Program for the procurement of the Alternate Combination Cover and the Service Dress White Choker coat for females.

MISSION:

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

ACCOMPLISHMENTS

NEXCOM achieved a 0.23 percent inventory shrink result, \$3.3 million under the reserve and 83 percent below the national average of 1.38 percent according to the 2016 National Retail Security Survey by the National Retail Federation. NEXCOM's target locations reduced shrink by almost \$1.4 million.

A new Biometric screening program was conducted on an enterprise-wide basis as a benefit to the non-appropriated funded (NAF) Health Benefit Plan. NEXCOM associate participation was highest among all NAF groups.

A plug-in electric vehicle (PEV) charging station for use by associates, contractors, vendors and guests was installed at NEXCOM headquarters. This is the first workplace PEV charger in Virginia Beach and within the Department of the Navy. The PEV charger offers payment options in radio frequency identification (RFID), mobile app or the use of any contactless credit card that has an RFID chip. Cost to charge is \$.99 per hour and as a level II charger, it can charge a car battery in four hours.



Human Resources purchased 200 tablets for use by the field to give associates an easier way to participate in the Associate Satisfaction Index (ASI) survey and take mandatory training. In 2016, the ASI was taken entirely electronically using tablets, computers and personal devices. The level of participation by NEXCOM associates from the previous year's paper version remained the same.

As responsible stewards of service-wide transportation (SWT) funding, NEXCOM reduced its overall SWT spend by \$1.5 million during the government fiscal year ending September 2016.



For the fifth year in a row, *LATINAStyle* 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 14,000 associates worldwide, over 11 percent are Latino and nearly eight percent are Latina women.

/NEXCOM ENTERPRISE

NEXCOM's new hire onboarding process was redesigned and restructured with new interfaces including training codes, emergency contacts and paycheck beneficiary data. The introduction of this new onboarding process improved the overall look and feel of the system for new hires. Its ease of use reduced the manual labor required by NEXCOM Human Resources associates to onboard new hires by automatically uploading important information to PeopleSoft.

NEXCOM was selected as a 2015 - 2016 Virginia Beach City Public Schools Model Partner in Education. The award reflects the nearly 10-year partnership NEXCOM has had with the Advanced Technology Center (ATC). The ATC was created to help the Virginia Beach public schools and community colleges meet projected enrollment figures for training in technology as well as assist in addressing the demand among Hampton Roads' employers for a well-trained and educated workforce, especially in the areas of information technology and engineering.



Standard & Poor's (S&P) confirmed NEXCOM's current rating of AA-/Stable, reflecting the very high likelihood of extraordinary support from the U.S. Government in the event of financial distress. NEXCOM's stand-alone credit risk profile is 'bbb+' based on NEXCOM's stable operating performance and solid credit matrix. NEXCOM is required under DoD Instruction 1015.15 to maintain an S&P credit rating.

Culminating a 3 1/2 year-long effort, NEXCOM purchased its Northeast Distribution Center (NEDC) property in Suffolk, Va. The result of owning the property will translate to an incremental increase to net profit exceeding \$750,000 annually.



/NEXCOM ENTERPRISE ASSOCIATES OF THE YEAR



Vonda Hensley
Merchandise Program Specialist
Operations Group
NEXCOM Headquarters
Associate of the Year



Eloisa Sanpedro
NEXCOM Enterprise
Associate of the Year
Supply Clerk
Japan Distribution Center



Elena Knudson
Navy Lodge Naples, Italy
Navy Lodge Program
General Manager of the Year

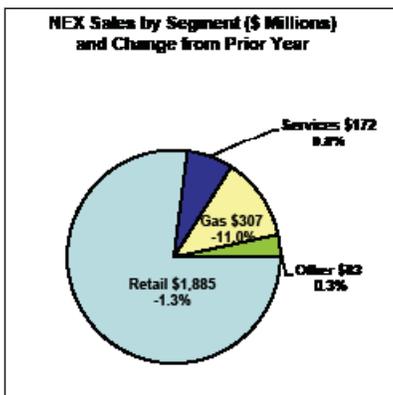
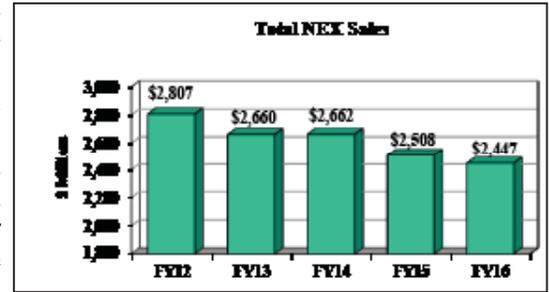


Rahel Menghestab
Guest Services Lead
Navy Lodge Bethesda, Md.
Navy Lodge Program
Associate of the Year

2016 FINANCIAL REVIEW

NEX

Sales performance continues to be challenging in a competitive retail environment with overall sales coming in at \$2.4 billion, which was 2.4 percent lower than last year. Retail sales were under last year by 1.3 percent, services revenues were higher than last year by 0.8 percent and gas sales fell behind by 11 percent. Despite the sales shortfall, strong expense controls across the enterprise mitigated the lost margin dollars and resulted in an Operating Profit of \$70.4 million. Net income for FY16 was \$45.8 million compared to \$31 million in FY15 and was impacted by a much lower retirement expense compared to the prior year. The retirement expense of \$24.6 million, calculated by our external actuaries, was determined based on the investment rate of return for NEXCOM's pension trust assets and the applicable discount rates as of fiscal year-end, which were favorable compared to FY15.



The biggest contributor to the total enterprise performance was the retail segment, accounting for 77 percent of total sales. Profit generated from the retail segment decreased by 2.2 percent largely due to lower sales and higher shipping and third party fulfillment expenses for e-commerce. The gross margin rate for FY16 was 24.98 percent versus 24.96 percent in FY15.

Sales from the services segment increased 0.8 percent from the prior year, primarily due to the vending program which continued to expand its fresh food concept. Gasoline sales fell 11.0 percent due to falling prices at the pump. The average price per gallon was \$2.37 in FY16 compared to \$2.71 in FY15.

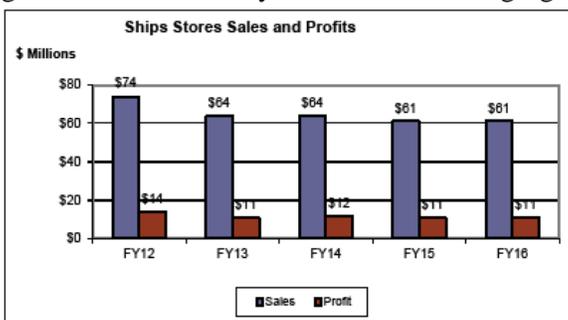
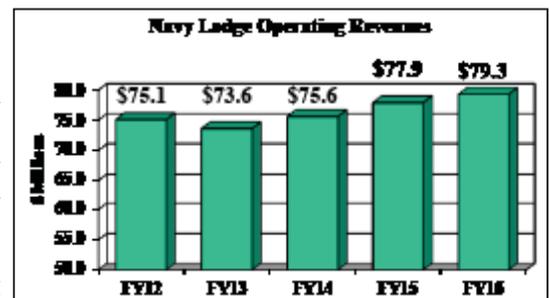
NEXCOM continues to provide savings in the form of a non-pay benefit as well as a cash dividend to the Navy's Morale, Welfare and Recreation (MWR) funds. Based on the FY16 earnings, dividends declared were \$32.6 million. From this total amount, \$17.5 million will be paid to local installation MWR funds.

The financial condition of the NEX, as reflected in the Balance Sheet and Statement of Cash Flows, remains strong. Cash flow from operations was \$100.6 million this year compared to \$171.3 million last year. NEXCOM's store modernization program continues to be funded from operating cash flow. During FY16, \$113.5 million was spent on capital expenditures.

NAVY LODGE PROGRAM

The Navy Lodge Program operates 39 Navy Lodges worldwide. The overall occupancy for 2016 increased to a record high rate of 84.3 percent as compared to 84.2 percent in the prior year. The average room rate increased to \$81.52 in FY16 compared to the average rate of \$79.87 in FY15.

The Navy Lodge Program continues to save travel dollars while generating cash flow used for remodeling existing facilities and building new facilities. Net income in FY16 of \$10 million compared favorably to \$9.6 million in FY15. Navy Lodge Program is rated superior in guest service and very effective in leveraging operating costs and maintenance costs.



SHIPS STORE PROGRAM

Ships Stores operated aboard 130 commissioned Navy ships. The program generated \$61.3 million in total sales and \$10.7 million in net profit for FY16. 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 FY16, the ships stores generated profits of \$9.4 million for their use and \$1.3 million for Commander, Naval Installations Command to use in support of fleet ships without a ships store, such as submarines.

FINANCIAL SUMMARY

For the Fiscal Years ended
January 28, 2017 January 30, 2016

In Thousands of Dollars

Navy Exchange Program

Income Statement:

Total Sales	\$2,447,248	\$2,508,405
Income from Concessions, net	41,506	41,795
Contributed Services Revenue	83,508	83,227
Other Revenue	<u>2,057</u>	<u>2,242</u>
Total revenues	2,574,319	2,635,669
Cost of Sales	1,878,189	1,933,402
Selling, General and Administrative Expenses	548,154	550,196
Contributed Services Expense	83,508	83,227
Other Income - Net	<u>5,941</u>	<u>6,909</u>
Operating Income	<u>70,409</u>	<u>75,753</u>
Retirement Expenses	24,586	44,781
Net Income	<u>\$45,823</u>	<u>\$30,972</u>

Profit Distribution:

Dividends declared	\$32,627	\$22,299
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Assets, Liabilities and Net Assets:

Assets:

Cash & Accounts Receivable	\$322,299	\$276,492
Merchandise Inventories & Other Current Assets	477,951	472,957
Property/Equipment & Other long-term Assets	<u>647,319</u>	<u>686,828</u>
Total Assets	<u>\$1,447,569</u>	<u>\$1,436,277</u>

Liabilities and Net Assets:

Trade Accounts Payable & Accrued Liabilities	\$277,851	\$291,135
Other Current Liabilities	189,946	199,465
Long-term liabilities	301,805	350,148
Net Assets	<u>677,967</u>	<u>595,529</u>
Total Liabilities & Net Assets	<u>\$1,447,569</u>	<u>\$1,436,277</u>

Navy Lodge Program

Income Statement:

Operating Revenue	\$79,328	\$77,885
Contributed Services	<u>5,062</u>	<u>4,776</u>
Total Revenue	84,390	82,661
General and Administrative Expenses	<u>75,320</u>	<u>73,424</u>
Operating Income	9,070	9,237
Other Income - Net	<u>901</u>	<u>400</u>
Net Income	<u>\$9,971</u>	<u>\$9,637</u>

Assets, Liabilities and Net Assets:

Assets:

Cash and Other Current Assets	\$150,447	\$147,268
Property and Equipment, net	<u>141,761</u>	<u>136,118</u>
Total Assets	<u>\$292,208</u>	<u>\$283,386</u>

Liabilities and Net Assets:

Accounts Payable	\$3,890	\$5,039
Net Assets	<u>288,318</u>	<u>278,347</u>
Total Liabilities & Net Assets	<u>\$292,208</u>	<u>\$283,386</u>

Ships Store Program

For the Fiscal Years ended
September 30, 2016 September 30, 2015

Ships Stores Sales	\$55,090	\$54,281
Vending Sales	<u>6,195</u>	<u>7,126</u>
Total Sales	<u>\$61,285</u>	<u>\$61,407</u>

Net Profit from Operations	<u>\$10,710</u>	<u>\$10,540</u>
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Profit Distribution:

Assessment for CNIC	\$1,301	\$1,339
Equipment for Ships Stores	\$1,230	\$668
Profits retained for Morale, Welfare and Recreation	\$8,179	\$8,533