



2017



ANNUAL REPORT



2017

CONTENTS





FROM THE CEO



The Navy Exchange Service Command (NEXCOM) Enterprise is comprised of 100 Navy Exchange (NEX) facilities and over 300 stores worldwide, Navy Lodges, 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 has nearly 14,000 associates, over 30 percent of whom are military affiliated as either family members or veterans.

For our nation, our Navy and our command, 2017 had its share of challenges and adversities dealing with the aftermath of Hurricanes Harvey and Irma as well as the devastating accidents of both the USS Fitzgerald (DDG 62) and USS John S. McCain (DDG 56). Following the incidents in the Pacific Fleet, our NEX and Navy Lodge teams in Yokosuka and Singapore continuously coordinated with Seventh Fleet leadership, the American Red Cross, other organizations and our NEXCOM headquarters team to ensure these Sailors and their families received what they needed, including new uniforms, prepaid phone cards and loaner phones and the replacement of personal items lost in the accidents. In the aftermath of the hurricanes that hit the gulf coast area, our NEX and Navy Lodge teams worked hard to support NAS Key West

with necessities and even opened up a barber shop in the office of the Commanding Officer. In less than five days after Hurricane Irma hit, the Boca Chica mini mart was open for business, in less than 10 days NEX Key West was back open and the Navy Lodge reopened on September 26. Our Telecommunications Program Office worked with our Internet provider to provide four portable satellite terminals for temporary use in Navy Lodge, Navy Gateway Inn & Suites (NGIS), MWR Liberty Center and establish a NEX hotspot zone. No matter where there's a need around the globe the NEXCOM team stepped up - selflessly to support our Navy and our Navy families.

Our total annual sales in 2017 were \$2.5 billion with a net profit of \$32.3 million which generated \$23.1 million in dividends for Morale, Welfare

and Recreation (MWR) programs. We also invested \$82.6 million in NEXs to improve our customers' shopping experience and to remain competitive within the retail market. Total annual operating revenue for Navy Lodges was \$84.3 million with a net profit of \$13.4 million. Ships store sales were \$59.2 million with profits of \$10.5 million.

As we look forward into 2018, we will continue to focus on delighting our customers to create advocates, taking care of our associates, performing to our financial plan and continually improving our business processes, collaborating with MWR, our military resale partners and Navy commands to reduce costs and increase effectiveness and maximizing Sailor personal readiness and strengthen our Navy family connection.

We remain 72 years strong!



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

A photograph of a NEXCOM Navy Exchange building. The building is a modern, single-story structure with a large sign above the entrance that reads 'NEX' with an anchor logo and 'WELCOME' below it. In the foreground, two people are walking away from the camera; one is wearing a dark jacket and the other is wearing a military-style uniform. The image has a blue tint and a diagonal line pattern overlay.

NAVY EXCHANGE

MISSION

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

ACCOMPLISHMENTS

NEX Naval Base Kitsap-Bremerton, Wash., celebrated its grand opening. The phased project took 14 months to complete and converted NEX Bremerton to a Fleet Store with a product assortment that focuses on the active duty Sailors stationed there. The store now provides larger assortments of nutrition, athletic wear and overall “A Better You” categories.

After many months of renovation, NEX Naval Hospital Guam mini mart held its grand opening Sept. 8. Renovations included a larger frozen food section, a food bar and additional retail space. The new store was well received by the attendees and had a 28 percent increase in sales over last year during the first day’s business.

NEX Northwest Annex, Chesapeake, Va., held the grand opening of its new 6,700 sq. ft. store and gas station on Sept. 29. The new store features a wider selection of joint forces uniform items, food, beverages complete with a walk-in cooler, health and beauty items, household cleaning supplies, sports nutrition and an expanded food bar with healthy choice

items, deli sandwiches, fresh fruit and more. There is also free Wi-Fi throughout the store.

Three additional locations were added to myNavyExchange.com’s Ship to Store program. The new locations are Guantanamo Bay, Cuba; Gaeta, Italy; and Barking Sands, Hawaii. This brings the total number of Ship to Store locations to 62, of which 15 are overseas locations.

Nine Fresh Mart locations opened around the enterprise. The Fresh Mart concept addresses healthy meal solution concerns identified by active duty, millennial Sailors and their families in weekly surveys. Currently, Fresh Marts are open at the NEX Great Lakes, Ill., mini mart; NEX Cabrillo mini mart, NEX Bayview mini mart, NEX Lemoore Jet Mart, NEX Murphy Canyon mini mart, NEX Pt. Mugu and NEX Nimitz, Calif., mini mart; NEX Bangor, Wash., mini mart and NEX Norfolk, Va.

The new Dollar Deck initiative was launched at NEX Norfolk, Va., on Oct. 27. Dollar Deck offers customers an assortment of items priced from \$0.50 - \$5 and includes seasonal, children’s toys, stationery, housewares, knick-knacks and party supplies. The Dollar Deck program is high impulse and is intended to drive traffic in stores and add additional items to the basket. There are currently nine locations with a representation of Dollar Deck assortments.



The NEX Salon and Spa Loyalty Card Program launched in the third quarter. The loyalty card allows the customer to receive a free \$30 service after five service visits to a NEX salon.

A special online sale called Benefit Days was created to disrupt the “typical” retail calendar, develop more exclusive NEX events and highlight more exclusive NEX products, categories and pricing. The sale touted the NEX benefits, drew attention to myNavyExchange.com, encouraged new customers to sign up for the NEX digital marketing/communication list and “stress tested” NEX holiday planning and systems. Supported by key vendors and sharp price points, the sale generated a 150 percent increase in account creation over last year and a 900 percent increase in online sales.

A “Recruit Family Welcome Center” was set up at NEX Great lakes, Ill., to vet all families attending recruit graduation. NEX Great Lakes saw over 3,000 family members within the first five days which resulted in a \$40,000 sales increase in Navy Pride merchandise versus previous year. The Recruit Family Welcome Center will be operational 47 weeks out of the year.

NAVY EXCHANGE

NAVY EXCHANGE
BINGHAM
AWARD
2016 ★ ★ ★
ST IN CLASS

CONTINUED

Six new Micro Markets opened this year for a total of 17 throughout the enterprise. Micro Markets opened at the NAS Jacksonville, Fla., hospital; Naval Submarine Base Kings Bay, Ga.; Naval Air Station Whidbey Island, Wash., Hangar 6; Naval Air Station Corpus Christi, Texas, CCAD Bldg. 8; NEXCOM headquarters and Space and Naval Warfare Systems Command (SPAWAR) complex at Joint Reserve Base Belle Chasse, La. Total sales volume for the year was \$2,947,157.

The Department of Defense directed a new Tobacco Pricing Policy for all military exchanges. The policy required that with respect to the pricing of tobacco products, prices in the U. S. (including territories and possessions) shall match the prevailing local price in the community, including the effect of all applicable taxes that local consumers pay when purchasing tobacco. Overseas, shelf prices shall fall within the range of shelf prices for that same product in exchange outlets in the U. S. For shared markets outside the U.S., the exchange service representing the preponderance of the military population in the shared market will determine the price. Prices in ships stores aboard U.S. Navy vessels will be comparable to the prices at the exchange outlets located at each ship's homeport. This policy required all military

exchanges to implement the price change by March 30.

Several new merchandising lines launched during the year to bring brand name products to NEX customers. PETCO FOR NEX, an exclusive partnership program was rolled out to 42 NEX locations. The program includes fashion apparel, accessories, bedding, bowls and toys that are all currently Petco exclusive. An online premier luxury handbag shop was introduced on the NEX web store which included new brands Prada, Versace, Tori Burch and Zac Posen. Finally, an exclusive Jockey opening price point active wear program in girls, boys and men's was introduced.

NEXCOM's Food Services opened several food concepts throughout the enterprise including a Qdoba Mexican Grill at Naval Station (NS) Norfolk, Va.; a Burger King in the NEX Norfolk, Va., food court; an Auntie Anne's Pretzels at Naval Air Station (NAS) North Island, Calif.; a KFC and Coldstone Creamery at NS San Diego; a Panda Express and Au Bon Pain in the Washington Navy Yard food court; a Panda Express at the NEX Pearl Harbor Fleet Store food court and NEX Corpus Christi, Texas; a Mamma Deluca's Subway's Italian at NEX Pensacola, Fla.; a freestanding Wendy's at NS Guam; a Pizza Hut at Naval Air Facility

Atsugi, Japan; and a Subway at Naval Support Activity Bahrain.

As the program manager for the Department of Defense Education Activity (DoDEA) Student Meal Program overseas, NEXCOM opened the first salad bar in the cafeteria at Yokosuka Middle School for students and staff. On its first day of operation, of the 195 students, 143, or 73 percent, chose a customized salad. NEXCOM manages the food service program for DoDEA schools overseas. In total, NEXCOM's Student Meal Program served 504,695 reimbursable meals during the 2016-2017 school year.

NEXCOM's Loss Prevention/Safety Department investigated and resolved 1,408 internal, external and vendor theft cases with a total dollar amount of \$727,835. An additional 182 cases which included human resources policy/procedure, trespassing, vandalism, personal property theft, burglary, conduct, check and credit card fraud were also investigated. The total number of cases for this period was 1,590 with a total dollar amount of \$785,689. In addition 1,881 fraudulent myNavyExchange.com transactions with a total value of \$2,206,279 were identified and closed down.



SHIPS STORE



MISSION

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

ACCOMPLISHMENTS

Ships store sales were \$59.2 million which generated a net profit of \$9.1 million. The program reinvested \$1.3 million in capital expenditures, distributed profits of \$8.0 million for its individual MWR programs and distributed \$1.2 million of its profits to central MWR for fleet-wide recreational programs with net profit from operations and monies from prior quarters.

Sales of coffee bars were equal to 10 percent of total sales with over \$1.5 million in profits generated for Sailor quality of life. Currently, there are 15 ships with coffee bars in the fleet.

An additional 18 ships were branded which included merchandising resets, visual cues and training to bring them up to the new ships store standard. The 18 ships were USS Lake Erie (CG 70), USS Normandy (CG 60), USS Iwo Jima (LHD 7), USS Dewey (DDG 105), USS Bunker Hill (CG 52), USS Halsey (DD 97), USS Essex (LHD 2), USS Preble (DDG 88), USS Abraham Lincoln (CVN 72), USS Wasp (LHD 1), USS Michael Murphy (DDG 112),

USS O'kane (DDG 77), USS Rafael Peralta (DDG 115), USS Chancellorsville (CG 62), USS Gonzalez (DDG 66), USS Forrest Sherman (DDG 98) and USS Gridley (DDG 101).

A total of 26 ships received the ROM 3 maintenance upgrade to ROM II. This included two ASs, one CG, six CVNs, seven DDGs and eight "L" decks as well as two hospital ships. The Ships Store Program teamed with NAVSUP to assist with the installation and to provide dedicated training to the afloat ships servicemen. The total number of ships with ROM 3 is 119.

The Ships Store Program worked with equipment manufacturers to design the next generation of shipboard washer-extractors, incorporating latest technologies and reducing shipboard maintenance requirements.

NAVY LODGE



MISSION

Provide reasonably priced, quality lodging facilities for authorized guests.

ACCOMPLISHMENTS

Guest room resets were completed at the Navy Lodge Fallon, Nev.; Navy Lodge Great Lakes, Ill.; Navy Lodge Key West, Fla.; Navy Lodge Rota, Spain; Navy Lodge Sasebo, Japan; and Navy Lodge San Diego, Calif. Resets included new furniture, paint, lounge chairs, coverlets and window treatments.

Lobby and guest room resets were completed at the Navy Lodge Norfolk, Va., and Navy Lodge Port Hueneme, Calif. The lobbies were completely redesigned with breakfast area, new flooring, new front desk, lobby furniture and signage package. Guest room reset included new furniture, paint, lounge chair, coverlets and window treatments. Navy Lodge Washington, D.C., received a reset that included new lobby and guest room furniture, paint, lounge chairs, coverlets and window treatments.

Navy Lodge Sigonella, Italy, completed its renovation of the lobby with the addition of a breakfast bar and upgraded seating. At the same time, three family suites were added and every guest room remodeled with new furniture, lighting, bathroom, kitchens, window treatments, bedding and carpeting.

Navy Lodge Gulfport, Miss., partnered with Fleet and Family Services, the USO and the Exceptional Family Member Program to show “low sensory” movies for children with special needs in the Navy Lodge lobby on Tuesday nights in August.

The Electronic Guest Survey was deployed in December. This customer relationship management service includes confirmation and cancellation emails, pre-stay emails, a thank you note email with a link to the comment card survey and option to “opt-in” to receive information from NEX.

Over 17,900 room nights were used at Navy Lodges worldwide for medical/wounded warriors.

Navy Lodge occupancy rate was 85.3 percent, a record high percentage. Permanent change of station (PCS) room nights sold increased 3.1 percent compared to the previous year. The overall guest satisfaction rating was 4.88 out of 5.00, a new record high.

The PCS scratch cards utilized by military members resulted in over 22,000 room nights discounted and a savings of over \$198,000.

Over 3,800 room nights were discounted at a savings of over \$62,500 during the Holiday Promotion, which offered 20 percent off the



regular room rate at 24 select Navy Lodges from Nov. 23, 2017 – Jan. 1, 2018.

The DoD Lodging Reservation Center received over 511,000 calls which were answered within 56 seconds or less on average.

Refrigerated self-serve display cases were installed in several Navy Lodge lobbies, offering fresh food options to include sandwiches, baked goods (cake and pie) and beverages.

The “cradle to cradle” program for recycling mattress and box springs resulted in a 131 ton diversion out of landfills.

The Navy Lodge Program ended 2017 with 39 operations and 3,136 rooms.



TELECOMMUNICATIONS PROGRAM OFFICE

MISSION

To serve customers by keeping them connected to family and friends, 24/7, on affordable and reliable networks, throughout their Navy journey from Boot Camp to Retirement.

ACCOMPLISHMENTS

Per a Naval message, the Afloat Personal Telecom Services (APTS), which provides personal calling on board Navy ships using high quality satellite connectivity, will be ending service in 2018 after nearly 22 years. The ending of the service is due to the costly upkeep of the less used system and competitive technology advancements.

Two new cellular prepaid options were introduced, the Y-Mobile in Japan and Cricket Wireless in the U.S. Both carriers provide a value driven device and an affordable prepaid option.

Introduced and successfully tested a new personal voice over Internet protocol (VoIP) service for residents in family housing and Unaccompanied Housing at Naval Station Guantanamo Bay, Cuba, as a replacement for the AT&T Long Distance telephone service.

As a part of NEXCOM's agreement with the Office of the Secretary of Defense to provide Internet service to businesses on Guantanamo

Bay, executed 27 Business Service Agreements throughout 38 buildings on base.

Fiber upgrades were completed to Marinai Family Housing in Sigonella, Italy, expanding the service from 200M to 500M which brought standard and affordable Internet to residents. Upgraded fiber from 200M to 1G was also completed at Naval Support Activity Bahrain and Air Base ISA.

The contracted Internet provider on Guam, DoCoMo, increased bandwidth speeds for Unaccompanied Housing from 10M to 60M at no additional cost to the government or the end user. DoCoMo Guam also increased bandwidth speeds for Navy Gateway Inns & Suites (NGIS) customers and provided the ability for customers to purchase pay-as-you-go Internet services.

Stand-alone pay phones were discontinued and have been removed from most military Installations. However, pay phones will continue to be supported at Recruit Training Center Great Lakes, Ill., and Navy Brigs.

Distributed 33,950 complimentary prepaid phone cards for Sailors and Marines deployed during the holidays.

A group of approximately ten people, including men and women of various ages, are standing together in a well-lit room that appears to be a uniform shop. In the background, there are shelves stocked with various items, possibly uniforms or supplies. A sign above the group reads "UNIFORM SHOP". To the left, a smaller sign features the "NEX" logo and the text "HENDERSON HALL". The overall image has a blue tint and a diagonal line pattern overlay.

UNIFORM PROGRAM MANAGEMENT OFFICE

MISSION

Since 1976, NEXCOM's Uniform Program Management Office (UPMO) has served as NEX's Program Manager for Navy uniforms, managing government-issue uniforms for enlisted personnel, commercial uniforms for Chief Petty Officers and Officers and assisting with Fleet organizational and protective clothing requirements.

ACCOMPLISHMENTS

In six months the rollout of the Navy Working Uniform (NWU) Type III was completed throughout all Navy Regions and the NEX Uniforms Web Store/Customer Contact Center, accelerating access to the fleet and completing the NEX launch.

On April 10, Naval Recruit Training Command, Great Lakes, Ill., issued the first new Navy Fitness Suits to recruits. Fitness suits were available for purchase in NEX Uniform Stores in July.

Twenty-one members from NEXCOM's UPMO and the Navy's Uniform Management Team (OPNAV N13, NEXCOM, NCTRF and DLA) met to identify all the steps required to introduce a new uniform at both Recruit Training Center and in NEX Uniform Stores. There was full participation from each echelon and command involved in the development of uniform

requirements, procurement, rollout, sustainment in NEX stores, to disposal. Further, information that each command needs to make decisions during that introduction was identified as well as which command provides that information. These steps and information were captured in the ServiceNow IT platform in order to establish a common template POA&M for a typical uniform introduction. By March 2018, the goal is for the IT platform to allow the Uniform Management Team to use the template as a "menu" and pick the steps required for each new uniform project, thereby generating a tailored and scaled Project Plan for that uniform item. Further, it will identify risk, cost and labor estimates associated with each project as well.

In conjunction with Defense Logistics Agency Troop Support (DLA-TS), the introduction of the enlisted Service Dress White and Service Dress Blue uniforms was finalized. In addition, the rollout of women's choker style Service Dress White uniform to the fleet was completed.

NEX NROTC/NJROTC Program continues to support over 6,000 midshipmen at 65 universities and over 90,200 cadets at 623 high schools representing \$8.6 million in sales.





NAVY CLOTHING AND TEXTILE RESEARCH FACILITY

MISSION

The Navy Clothing and Textile Research Facility (NCTRF) 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

Fast tracked efforts to address the fit/design related to the female slacks and skirts. The slacks patterns were adjusted to lower the waist to rest on the hips, shorten crotch and modify the darts. Skirt profile was modified to be a straight design, welt pockets were removed and a waistline pocket added. Implementation of the fit/design changes to the white certified Navy twill (CNT) and khaki polyester/wool items expected to be in NEX Uniform Stores January 2019.

In an effort to find a replacement fabric for the white hat before current inventory is depleted, NCTRF conducted a market survey for potential new sources. Four potential fabric manufacturers were identified: Harodite, East Bank, Mount Vernon and Burlington. Fabrics were tested to the Dixie fabric specification, NCTRF PD 12-12, for East Bank and Harodite fabrics. Harodite's fabric was found acceptable.

Burlington is working to produce polyester fabric to submit for testing. NCTRF will continue to investigate alternative fabrics and manufacturers in FY18.

A wear evaluation was conducted on various new black safety boots that would improve Sailors' comfort and fit as well as boot performance and durability, especially in the boot soles. Sailors afloat and ashore were asked in written surveys and focus groups to identify those comfort and performance features most desired. Market research was then conducted that identified five commercialized boots that best met those desired features. Further, they also had to be flame resistant, tall enough to blouse with the NWU Type I and III, Berry Amendment Compliant, commercially available for testing in FY2017 and a minimal cost increase over the current boot. Three test boots were selected for the study because they had met all protection requirements and exceeded the comfort and durability of the current NWU 9-inch boot. The three month wear evaluation conducted consisted of 308 Sailors (male and female; Officers and Enlisted) onboard USS Monterey (CG 61) in Norfolk, Va., and USS Boxer (CV 21) in San Diego. As a comparison (baseline), the current boot was tested alongside the three improved boots. Data analysis was in-process through September 2017 and continues into FY2018.



A flame resistant fleece jacket was issued to improved flame resistant variant (IFRV) coverall wear test participants for evaluation as an alternative fire resistant variable (FRV) outerwear option. At the end of the wear evaluation, focus groups were conducted. Participants were unanimous in their love for the FRV fleece jacket. Many preferred it over the NWU fleece liner due to its pockets, durability, design and rank tab. Based on wear evaluation results and user feedback, recommend the adoption of the FRV Fleece Jacket as an organizational clothing item. The Supply Request Package and Technical Data Package were initiated in FY2017 and will transition to Defense Logistics Agency (DLA) in 2018. U. S. Fleet Forces Command would like the FR fleece jacket available through the supply system by Jan. 1, 2019.

A photograph of three men standing in a retail store, likely a Navy Exchange. The man on the left is wearing a military camouflage uniform and is smiling. The man in the center is wearing a dark suit, white shirt, and tie, and is also smiling. The man on the right is wearing a military camouflage uniform with "U.S. NAVY" visible on the chest and is smiling while holding a shopping basket. The background shows store shelves and other customers. The text "NAVY EXCHANGE SERVICE COMMAND" is overlaid in large white letters on the left side of the image.

NAVY EXCHANGE SERVICE COMMAND

MISSION

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

ACCOMPLISHMENTS

The Veterans Online Shopping Benefit (VOSB), which allows nearly 18 million honorably discharged veterans the access to shop any military exchange online store, was launched on Veterans Day, Nov. 11. The expansion of the shopping benefit allows the military exchanges to boost their dividends and increase contributions to MWR quality of life programs. Online sales Veterans Day weekend were \$662,869, +153.32 percent to last year. Of that, VOSB accounted for 13.75 percent of NEXCOM's total online sales. Navy Pride, electronics and men's apparel were the top categories purchased by veterans.

Final shrink for the year shows that for retail departments, stores are 0.10 percent short and distribution centers are \$1,613,000 short at cost. Total store and distribution center combined shrink results are 0.24 percent short. For comparison, fiscal year 2016 retail departments, stores were 0.20 percent short and distribution centers were \$383,000 short at cost. Total store and distribution center combined shrink results were 0.23 percent short.

Human Resources organized the enterprise's mandatory training into two thematic waves: Wave 1 - "Taking Care of Ourselves, Each Other, Our Customers and NEXCOM" and Wave 2 - "Treating Others with Respect and Safeguarding our Enterprise." The reorganization reduced the number of hours the hourly workforce spent completing mandatory training by approximately six hours and field based managers and headquarters associates by 3.5 hours saving approximately \$687,444 in payroll dollars.

For the sixth 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 13,000 associates worldwide, over 11 percent are Latino and nearly eight percent are Latina women.

NEXCOM headquarters' Intern Program was enhanced with new recruitment materials, recruitment efforts and onboarding and process controls that resulted in an improved summer intern program. All 17 of college interns accepted employment offers at NEXCOM headquarters.

The military exchange services have continued to make advantageous use of each other's non-appropriated fund instrumentality



(NAFI) contracts as well as appropriated fund (APF) contracts. NEXCOM's Contracts Department administered 34 contracts supporting 54 other NAFI sites/facilities with an annual value of \$170 million. In addition, it placed delivery or task orders against 44 contracts awarded by other NAFIs or Federal entities valued at \$425 million. Examples of new joint contracts executed or being newly shared included Market Business Intelligence (BI Information Barter contract) with The Nielsen Company, LLC that supports NEXCOM, MCCA and CGES), CPA annual audit services contract with KPMG LLP in support of both NEXCOM and CNIC MWR and PODS Enterprises, LLC portable mini storage contract that supports all four military exchanges in the continental United States.



Sales performance continues to be challenging in a competitive retail environment although overall sales came in at \$2.5 billion, an increase of 2.0 percent over last year. Retail sales were lower than last year by 0.7 percent, service revenue was higher than last year by 2.9 percent, and gas sales were higher by 13.7 percent. In addition to the sales increase, strong expense controls across the enterprise mitigated reduced margin dollars and resulted in an Operating Profit of \$60.4M. Net income for FY17 was \$32.3 million compared to \$45.8 million in FY16 and was impacted by a higher retirement expense compared to the prior year. The retirement expense of \$28.1 million was determined based on the assumed investment rate of return for

NEXCOM's pension trust assets and the applicable discount rates as of fiscal year-end, which were unfavorable compared to FY16.

The biggest component of the total enterprise performance was the retail segment, accounting for 75 percent of total sales. Profit generated from the retail segment decreased by 4.3 percent from last year largely due to lower sales and higher shipping and third party fulfillment expenses for e-commerce. The gross margin rate for FY17 was 24.90 percent versus 24.98 percent in FY16.

Sales from the services segment increased 2.9 percent from the prior year, primarily due to sales increases in custom services and the vending program, which continued to expand its

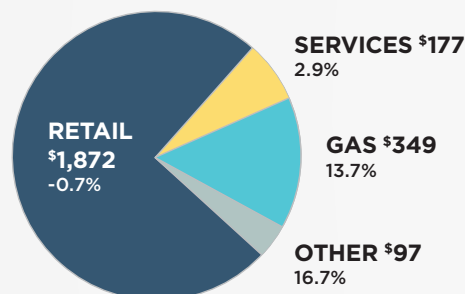
fresh food concept. Gasoline sales increased 13.7 percent due to higher prices at the pump. The average price per gallon was \$2.66 in FY17 compared to \$2.37 in FY16. Government-issued Uniforms and Cooperative Efforts sales ("other income") increased 16.7%, largely due to the rollout of the new Navy Working Uniform Type III.

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 FY17 profits, dividends declared were \$23.1 million. From this total amount, \$15.8 million will be paid to local installation MWR funds.

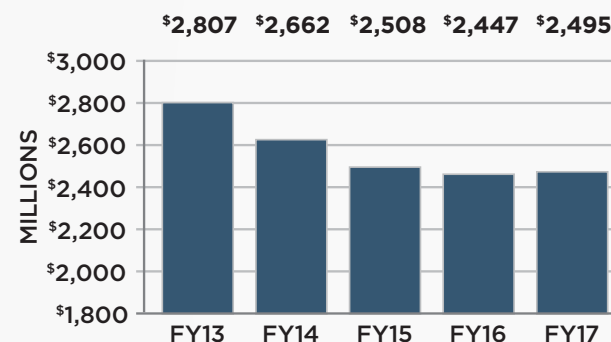
The financial condition of the NEX, as reflected in the Balance Sheet and Statement of Cash Flows, remains strong.



**SALES BY SEGMENT (MILLIONS)
AND CHANGE FROM PRIOR YEAR**



TOTAL SALES



Cash flow from operations was \$74.0 million this year compared to \$100.6 million last year. NEXCOM's store modernization program continues to be funded from operating cash flow. During FY17, \$82.6 million was spent on capital expenditures.

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 FY17 of \$13.4 million compared favorably to \$10.0 million in FY16.

Navy Lodge Program continues to be superior in guest service and very effective leveraging of operating and maintenance costs.

FY17. 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 FY17, the ships stores generated profits of \$8.0 million for their use and \$1.2 million for CNIC to use in support of Fleet ships without a ships store, such as submarines.

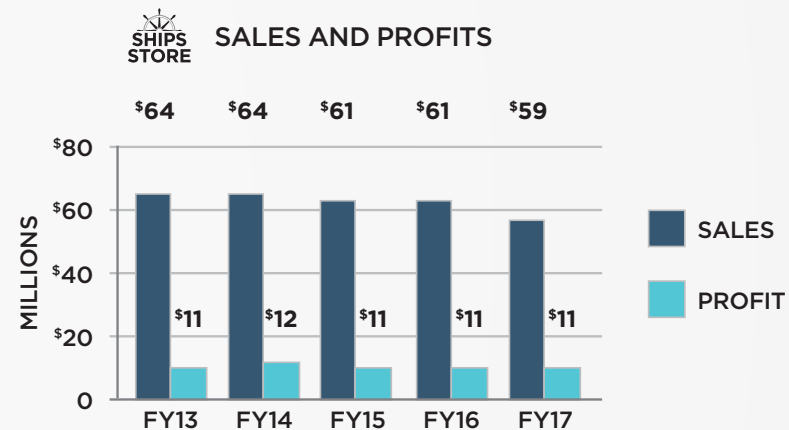
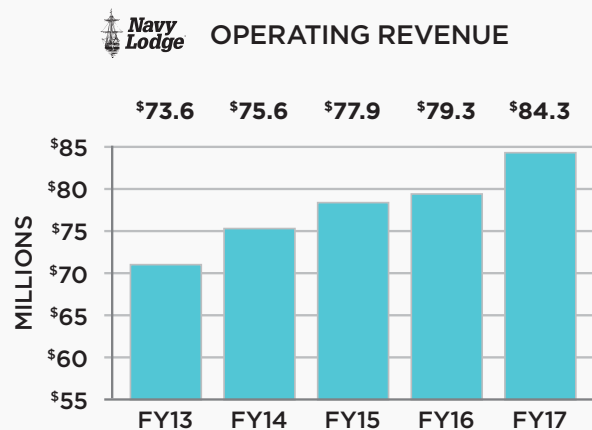


The Navy Lodge Program operates 39 Navy Lodges

worldwide. The overall occupancy for 2017 increased to a record high rate of 85.3 percent as compared to 84.3 percent in the prior year. The average room rate increased to \$83.97 in FY17 compared to the average rate of \$81.52 in FY16.



Ships Stores operated aboard 133 commissioned Navy ships. The program generated \$59.2 million in total sales and \$10.5 million in net profit for





FOR THE FISCAL YEARS ENDED
FEBRUARY 3, 2018 **JANUARY 28, 2017**
 IN THOUSANDS OF DOLLARS

INCOME STATEMENT	» Total Sales	\$2,495,018	\$2,447,248
	» Income from Concessions - Net	\$41,065	\$41,506
	» Contributed Services Revenue	\$77,733	\$83,508
	» Other Revenue	\$3,506	\$2,057
	TOTAL REVENUES	\$2,617,322	\$2,574,319
	» Cost of Sales	\$1,925,869	\$1,878,189
	» Selling, General and Administrative Expenses	\$560,989	\$548,154
	» Contributed Services Expense	\$77,733	\$83,508
	» Other Income - Net	\$7,668	\$5,941
	» Operating Income	\$60,399	70,409
	» Retirement Expenses	\$28,140	24,586
	NET INCOME	\$32,259	\$45,823
ASSETS	» Cash & Accounts Receivable	\$351,816	\$322,299
	» Merchandise Inventories & Other Current Assets	\$487,805	\$477,951
	» Property/Equipment & Other Long-Term Assets	\$646,632	\$647,319
	TOTAL ASSETS	\$1,486,253	\$1,447,569
LIABILITIES AND NET ASSETS	» Trade Accounts Payable & Accrued Liabilities	\$265,373	\$277,851
	» Other Current Liabilities	\$217,936	\$189,946
	» Long-Term Liabilities	\$305,781	\$301,805
	» Net Assets	\$697,163	\$677,967
	TOTAL LIABILITIES & NET ASSETS	\$1,486,253	\$1,447,569



FOR THE FISCAL YEARS ENDED
FEBRUARY 3, 2018 **JANUARY 28, 2017**
 IN THOUSANDS OF DOLLARS

INCOME STATEMENT	» Operating Revenue	\$84,295	\$79,328
	» Contributed Services	\$4,316	\$5,062
	TOTAL REVENUES	88,611	\$84,390
	» General and Administrative Expenses	\$76,684	\$75,320
	» Operating Income	\$11,927	\$9,070
	» Other Income - Net	\$1,505	\$901
	NET INCOME	\$13,432	\$9,971
ASSETS	» Cash and Other Current Assets	\$174,706	\$150,447
	» Property and Equipment - Net	\$130,337	\$141,761
	TOTAL ASSETS	\$305,043	\$292,208
LIABILITIES AND NET ASSETS	» Accounts Payable	\$3,293	\$3,890
	» Net Assets	\$301,750	\$288,318
	TOTAL LIABILITIES & NET ASSETS	\$305,043	\$292,208



FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2017 **SEPTEMBER 30, 2016**

	» Ships Stores Sales	\$53,574	\$55,090
	» Vending Sales	\$5,580	\$6,195
	TOTAL SALES	\$59,154	\$61,285
	NET PROFIT FROM OPERATIONS	\$10,472	\$10,710
PROFIT DISTRIBUTION	» Assessment for CNIC	\$1,188	\$1,301
	» Equipment for Ships Stores	\$1,271	\$1,230
	» Profits Retained for Morale, Welfare and Recreation	\$8,013	\$8,179