



Second Quarter 2016 Results

August 3, 2016



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Roland Smith
Chairman and Chief Executive Officer

Second Quarter 2016 Summary

- Total company sales declined 6% versus Q2 2015
 - ✓ Planned U.S. store closures
 - ✓ Business disruption from extended Staples regulatory process
- Company reported operating income of \$253 million compared to an operating loss of \$51 million in the prior year period
- Adjusted operating income* of \$67 million versus \$73 million with margin* flat to prior year at 2.1%
- Net income was \$210 million or \$0.38 per share compared to a net loss of \$58 million or \$0.11 per share in Q2 2015
- Adjusted net income* was \$19 million or \$0.03 per share versus \$32 million or \$0.06 per share in the prior year period
- Total cash and liquidity of \$2.2 billion

* Non-GAAP number. A reconciliation of GAAP to non-GAAP numbers can be found at investor.officedepot.com.

Second Quarter 2016 Initiatives

- Focus on rebuilding the Contract channel sales pipeline and winning new customers
- OfficeMax merger integration on track
 - ✓ Restarted Contract customer migration
 - ✓ Supply Chain consolidation progressing and on schedule
- Completed Phase 1 of U.S. retail store optimization plan
 - ✓ Closed 400 stores
 - ✓ Realized over \$100 million in annual benefits
- Considering strategic alternatives for European business
- Completed a comprehensive strategic business review to determine how Office Depot can best compete in the future

Comprehensive Business Review

The Company's strategic review included a detailed analysis of the current operating model, growth opportunities and cost structure resulting in a 3-year plan to grow profitability and provide shareholder value

Accelerate Contract

Rebuild new business pipeline

Expand into adjacent categories

Optimize sales coverage model

Optimize and Reinvent Retail

Expand store closure program

Streamline operating model

Test Store of the Future model

Cost Saving Programs

Operating model efficiencies

Indirect procurement

Lower overall G&A costs

Shareholder Return

Reduce interest expense

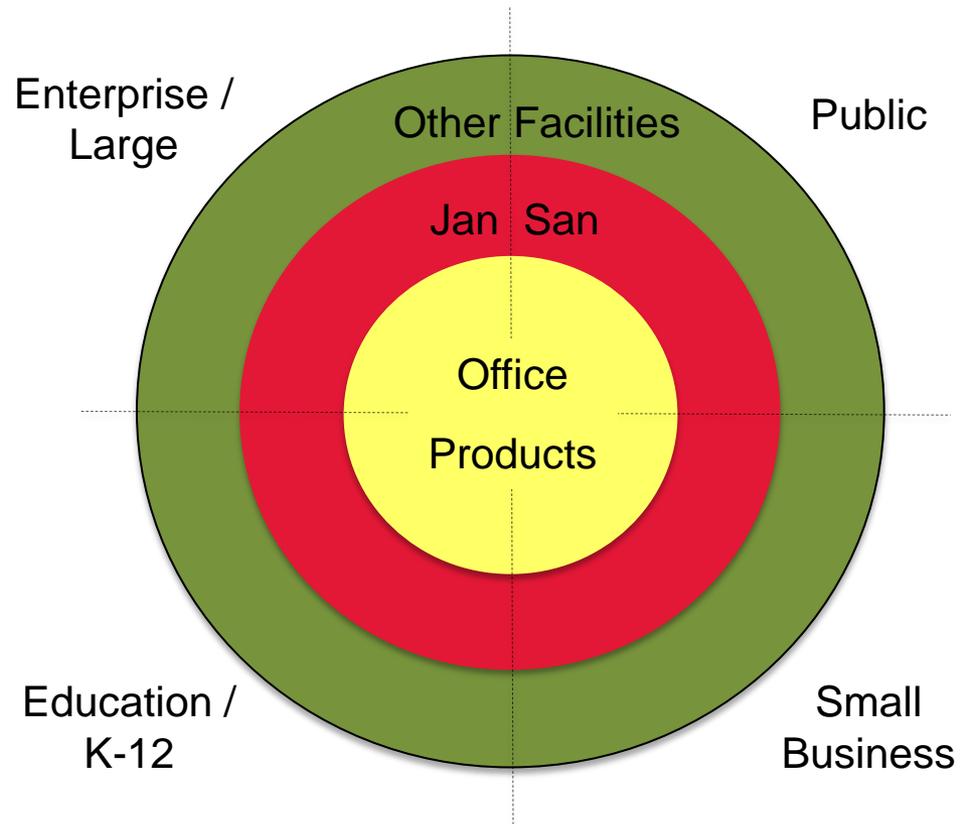
Ongoing share repurchases

Quarterly cash dividend

Comprehensive Business Review

Accelerate Contract and Initiatives for Growth

- Drive additional penetration into adjacent categories
- Leverage existing customers with expanded assortments
- Build on the success in K-12 customers
- Test new “Business Select” go-to-market model
- Optimize sales coverage to win new customers, drive adjacencies and increase share of wallet

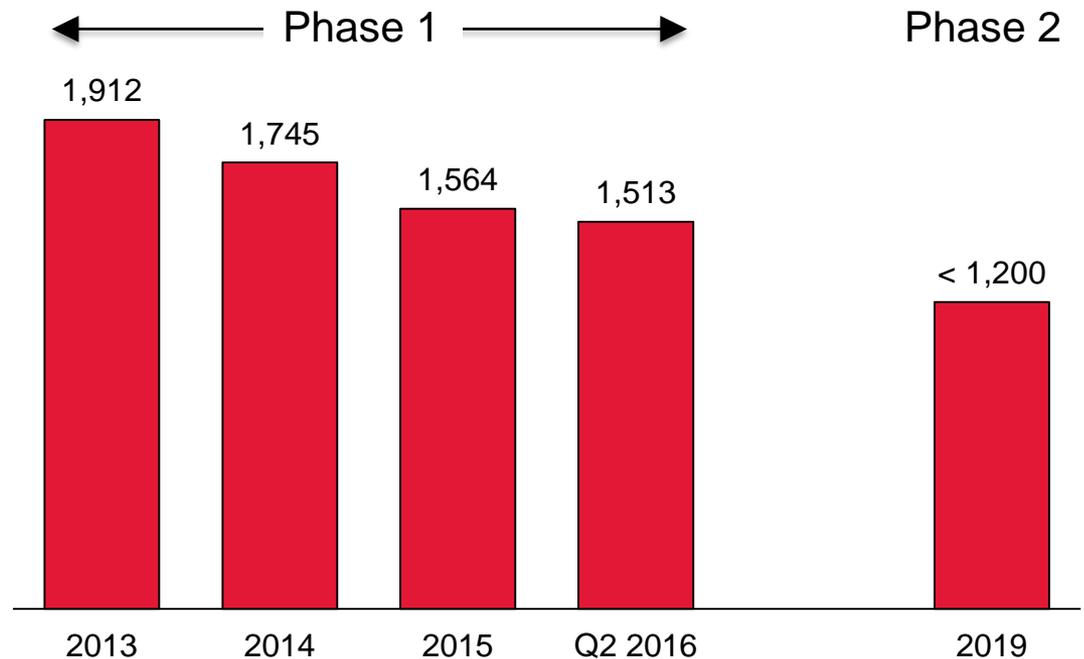


Comprehensive Business Review

Optimize Retail

- Closed 400 stores since the launch of Phase 1 in early 2014
- Exceeded 30% sales transfer target with over \$100 million in realized benefits
- Phase 2 includes approximately 300 additional store closures over the next three years
- Transition to simpler and lower cost operating model
- Rolling out new labor scheduling tool to redefine optimum support levels

U.S. Retail Store Portfolio



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Reinvent Retail - Store of the Future

Smaller 15,000 sq. ft. format provides a more curated assortment of products, increased space dedicated to services, easier navigation and better product adjacencies

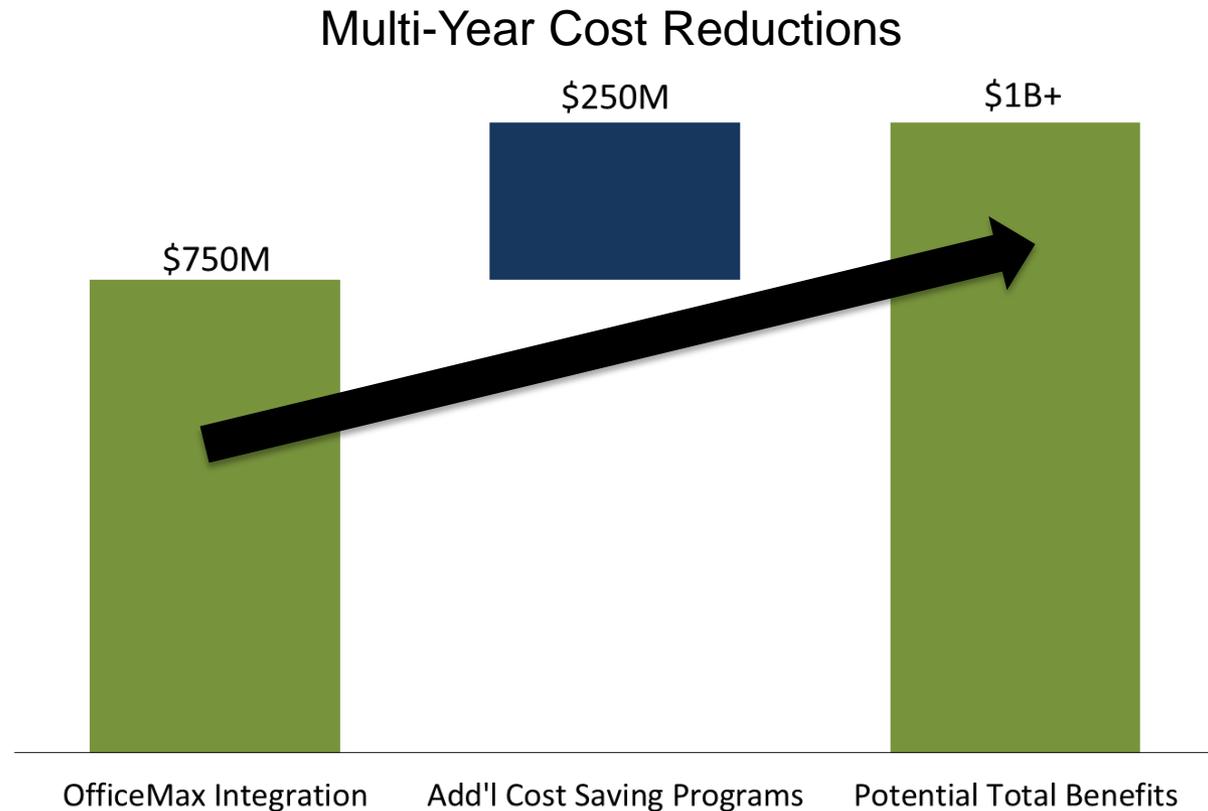


Converted 3 stores in July, expanding pilot program to a total of 24 stores by the end of 2016 and targeting 100 stores in 2017

Comprehensive Business Review

Cost Saving Programs

- On track to achieve more than \$750 million in merger synergy benefits
- Implementing more effective customer coverage model
- Phase 2 of U.S. retail store optimization plan
- Reductions in indirect procurement costs
- Lower overall G&A costs
- Identified over \$250 million of cost reductions to be delivered by end of 2018



Comprehensive Business Review

Capital Structure & Shareholder Return Initiatives

- Retiring \$250 million of 9.75% senior secured notes, resulting in \$24 million in annual cash interest savings
- Initiation of quarterly cash dividend of \$0.025 per share (\$0.10 on an annualized basis)
- Increased the share repurchase authorization plan up to \$250 million

Commitment to Shareholder Return



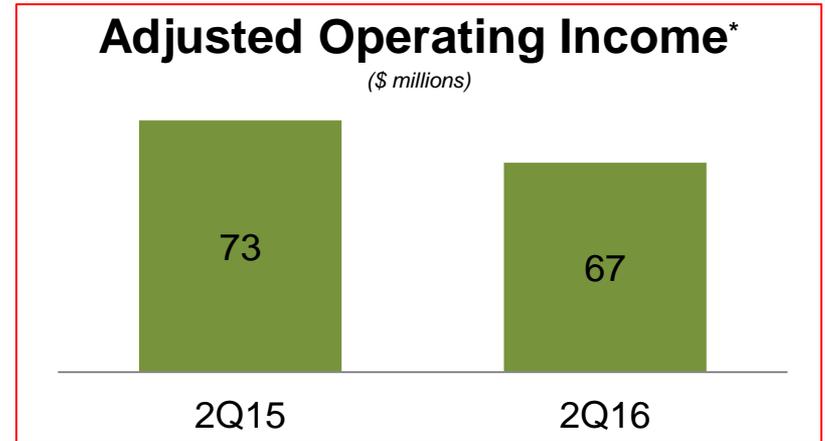
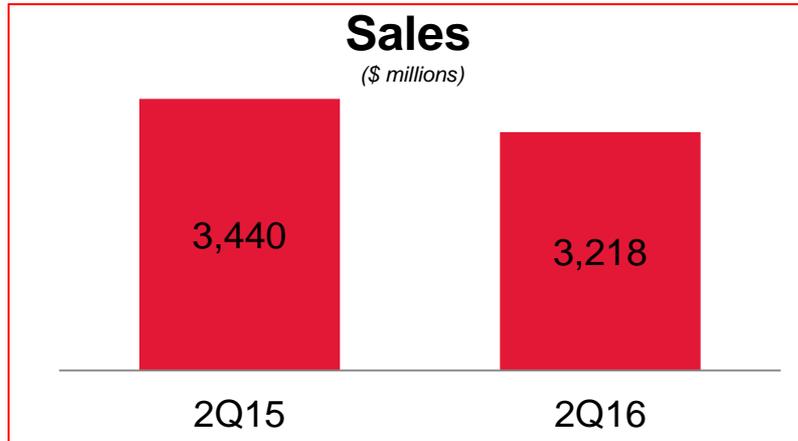
■ Share Repurchase ■ Ongoing Dividend ■ Debt Retirement



Steve Hare

Executive Vice President and Chief Financial Officer

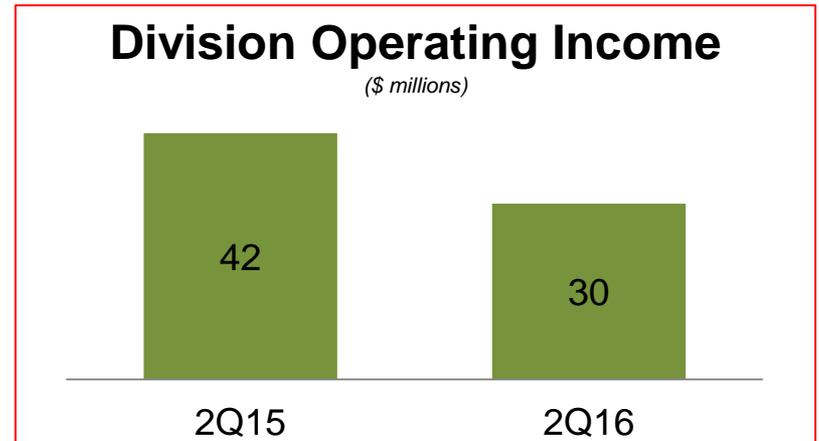
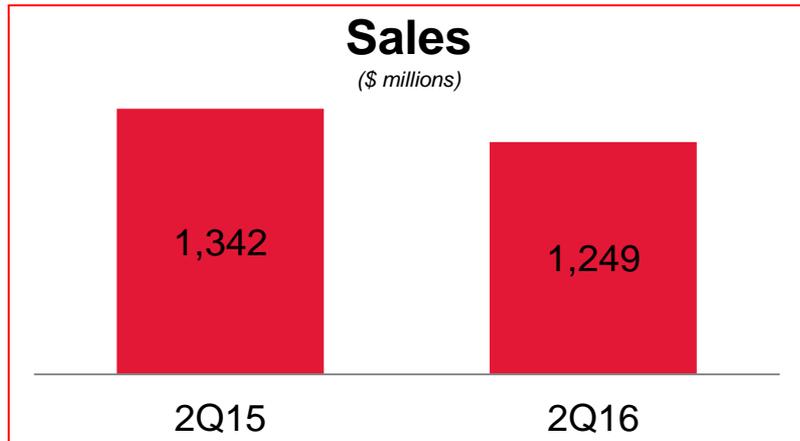
Consolidated Financial Summary – 2Q16



- 2Q16 sales down 6% from 2Q15; down 3%* adjusted for the following items:
 - ✓ U.S. retail store closures (3 percentage points)
 - ✓ Foreign currency translation had a minimal impact on sales decline
- 2Q16 adjusted operating income* decreased \$6 million from 2Q15
 - ✓ Flow-through impact from lower sales and \$15 million favorable legal settlements recorded in 2Q15, partially offset by lower occupancy costs, expense reductions and merger integration synergies

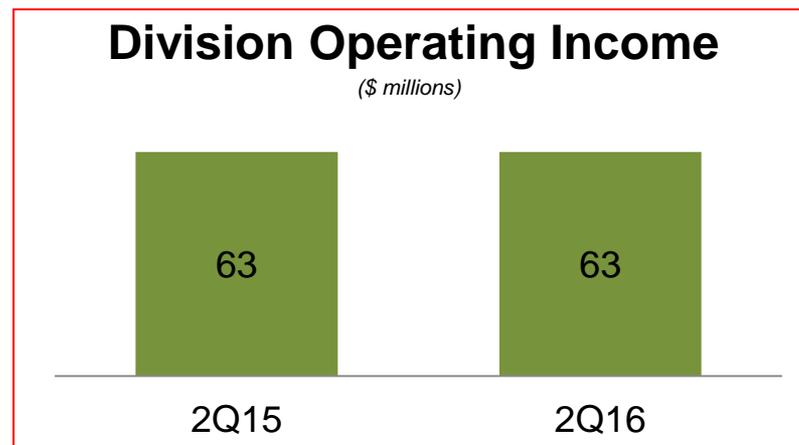
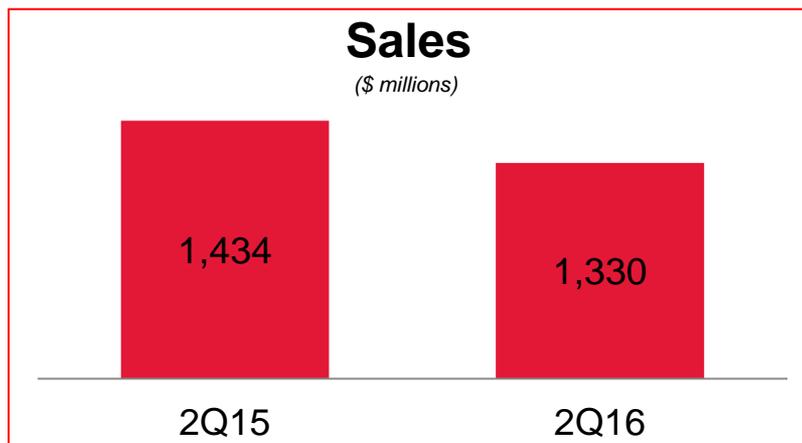
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North American Retail – 2Q16



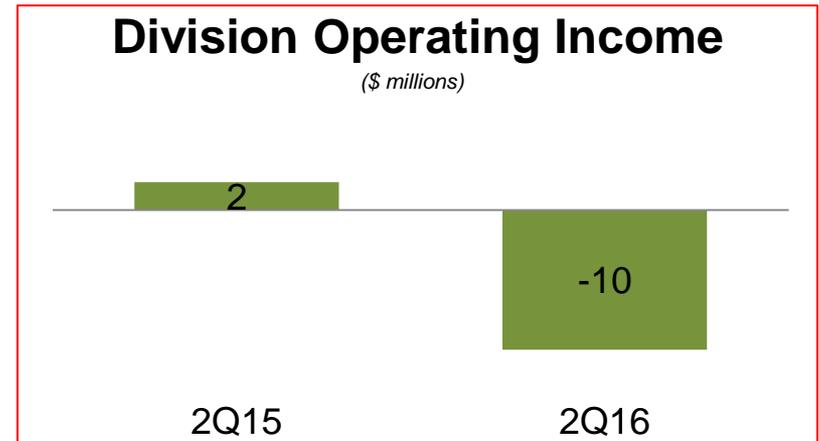
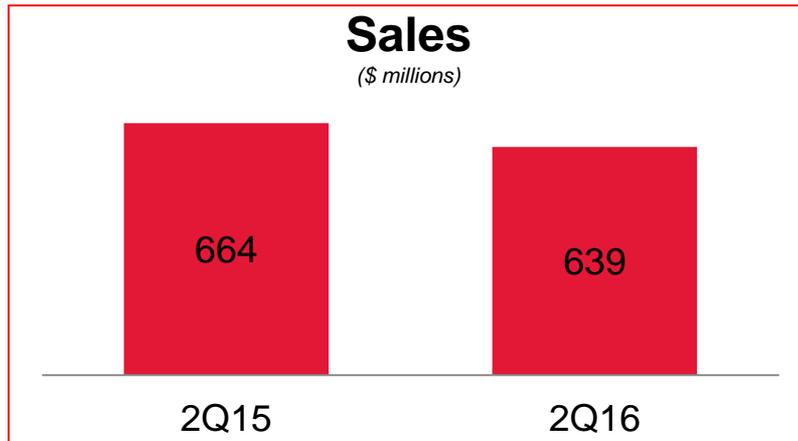
- 2Q16 comparable sales decreased 1%; total sales decreased 7% driven by planned store closures
 - ✓ Transaction counts decreased while average order value increased
 - ✓ Sales up in furniture, cleaning and breakroom, copy & print and supplies
 - ✓ Sales down in technology (ink, toner and computers)
- 2Q16 division income decreased \$12 million from 2Q15
 - ✓ Lower gross margin rate
 - ✓ \$15 million favorable legal settlements recorded in 2Q15
 - ✓ Partially offset by lower SG&A expenses including payroll and other store costs

Business Solutions – 2Q16



- 2Q16 sales decreased 7% from 2Q15 in constant currency
 - ✓ Contract channel U.S. sales declined driven by abnormally low pipeline and delayed new customer additions due to the prolonged Staples regulatory process
 - ✓ Sales declined across most product categories but increased in cleaning and breakroom and in K-12
 - ✓ Direct channel sales decreased with largest impact from the decommissioning of legacy OfficeMax ecommerce sites and continued softness in catalog sales
- 2Q16 division income was flat to 2Q15
 - ✓ Negative flow-through impact of lower sales was offset by a higher gross margin rate and lower SG&A expenses including payroll and advertising

International – 2Q16



- 2Q16 sales decreased 2% in constant currency from 2Q15
 - ✓ Sales were down in Contract and Direct channels but increased in Retail
 - ✓ Sales decline primarily due to the continued business disruption from the prolonged Staples' acquisition attempt and the related European divestiture process, the exit of unprofitable business in Asia and ongoing competitive market pressures
- 2Q16 division income decreased \$12 million from 2Q15
 - ✓ Negative flow-through impact of lower sales and a lower gross margin rate was partially offset by lower SG&A expenses including payroll and support costs

Balance Sheet/Cash Flow Highlights

<p>Net Cash Position</p>	<ul style="list-style-type: none"> • Total liquidity of approximately \$2.2 billion at end 2Q16 <ul style="list-style-type: none"> ✓ \$1.1 billion of cash & equivalents ✓ \$1.1 billion available from asset-based lending facility • Total debt of \$654 million at end 2Q16, excluding non-recourse timber notes
<p>Operating Cash Flow</p>	<ul style="list-style-type: none"> • Operating cash provided \$287 million in 2Q16, including: <ul style="list-style-type: none"> ✓ \$250 million for Staples termination fee offset by \$37 million in acquisition-related expenses ✓ \$31 million for OfficeMax merger-related costs ✓ \$16 million for restructuring and other costs
<p>Capex</p>	<ul style="list-style-type: none"> • Capex of \$23 million in 2Q16 <ul style="list-style-type: none"> ✓ Includes merger integration Capex of \$6 million
<p>Stock Repurchase</p>	<ul style="list-style-type: none"> • Repurchased 7 million shares for \$26 million in 2Q16

Outlook Summary

- Continue to expect total company sales to be lower compared to 2015 primarily as a result of:
 - ✓ Business disruption expected to continue through the year but at a decelerated rate as the company focuses on winning new customers
 - ✓ U.S. retail store closures
 - ✓ Exit of unprofitable business in Asia and softness in International
- The company now expects to generate between \$450 million and \$470 million in adjusted operating income* in 2016
- On target to achieve more than \$750 million in total annual run-rate merger synergy benefits from the OfficeMax integration with substantial completion by the end of 2017

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Outlook Summary

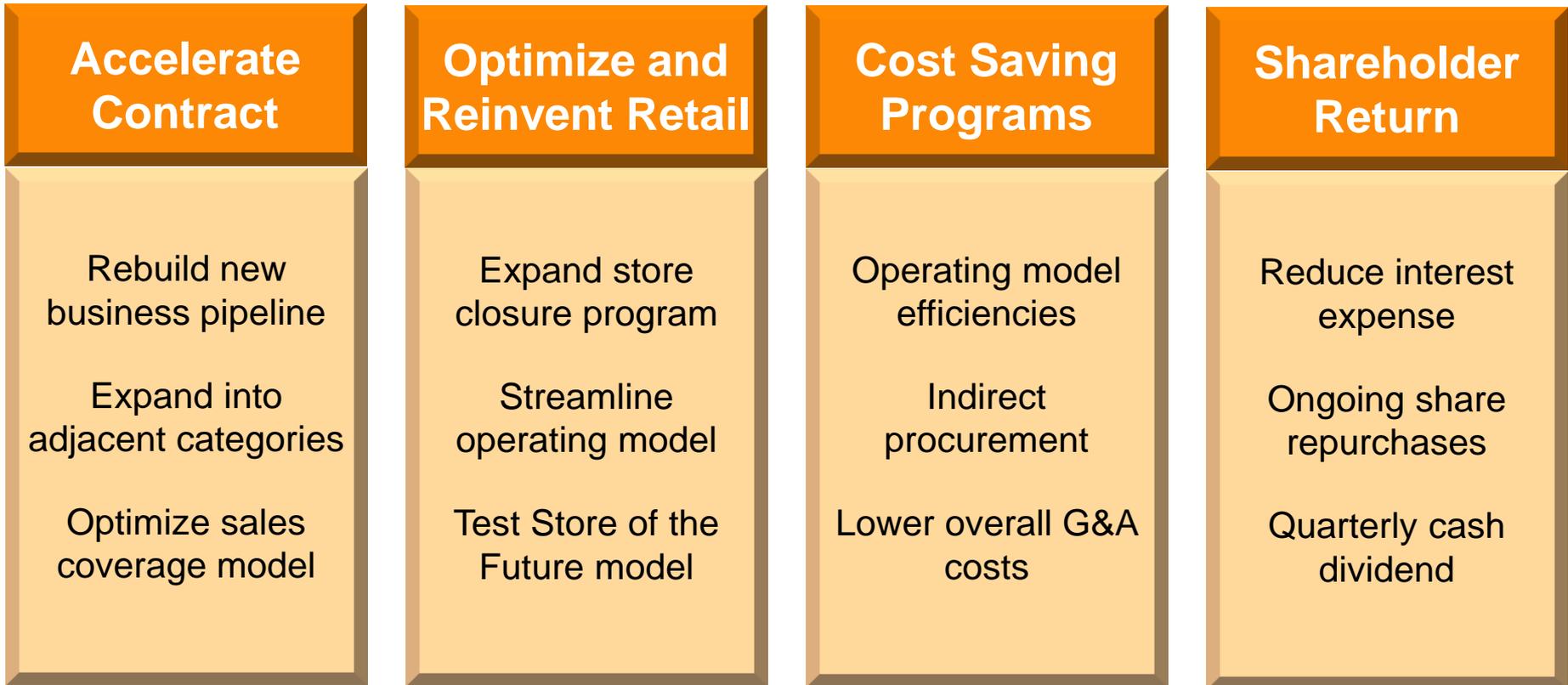
Additional 2016 Items

- Approximately 25 U.S. retail store closures in second half of 2016
- ~\$70 million of merger integration expenses in 2016 and \$30 million in 2017
- Approximately \$175 million of total capital expenditures
- ~\$215 million of depreciation & amortization expense
- Free cash flow* of \$200 million in 2016 and \$300 million in 2017
- Estimated non-GAAP effective tax rate of 45% for fiscal 2016, with a cash tax rate of between 10% and 15%

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Q & A