



NAVAL SUPPLY SYSTEMS COMMAND  
NAVY EXCHANGE SERVICE COMMAND

# 2018 Annual Report



# Contents



# From The CEO



*R. J. Bianchi*

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



*The Navy Exchange Service Command* is comprised of 100 NEX facilities and over 300 stores worldwide, Navy Lodges, ships stores, the Uniform Program Management Office, the Navy Clothing and Textile Research Facility and the Telecommunications Program Office.

In 2018, our total annual sales were \$2.5 billion, down 1.8% to last year. NEX net profit was \$13.1 million. However, due to a modification to our existing MWR/NEX profit dividend

*NEXCOM remains fully* integrated with our Navy communities by giving back 100% of our earnings to the Sailor.

split, effective for FY18 – FY20, we provided a total of \$35.1 million to Navy Morale, Welfare and Recreation. During the year, \$59.3 million was spent on capital expenditures to improve our customers’ shopping experience and to remain competitive within the retail market. Our Navy Lodge Program had an annual operating revenue of \$84.7 million and a net income of \$12.2 million. Finally, sales for our Ships Store Program were \$56.9 million with a net profit of \$9.1 million.

Within NEXCOM, our nearly 14,000 associates around the world understand the service and duties of our nation’s mili-



tary members since nearly half of them military affiliated, whether as retirees, reservists, veterans or family members. Moreover, NEXCOM remains fully integrated with our Navy communities by giving back 100% of our earnings to the Sailor - 70% to Morale, Welfare and Recreation programs and the remaining 30% is reinvested in capital improvements to NEX stores and facilities. Since 1946, NEXCOM has given \$3.6 billion to Navy MWR quality of life programs.

The year presented many challenges and successes for our business and for our customers and guests. Retail sales across the spectrum were difficult and the NEX was not exempt from those same issues. However, we continued to try new products, new vendor relationships and new services

to ensure our customers were able to find what they needed no matter where they are stationed around the world.

In addition, two consolidation studies involving the military exchanges and the commissaries as well as Navy lodging kept NEXCOM's senior leadership actively engaged throughout the year. We continue to work these initiatives to ensure the many quality of life benefits the enterprise brings to both the Department of the Navy and our military members and their families' are considered.

As we look towards 2019, the NEXCOM Enterprise will continue to stay focused on our mission and serving our Sailors, retirees and their families in the way that they so richly deserve. 🇺🇸

---

*As we look towards 2019, the NEXCOM Enterprise will continue to stay focused on our mission and serving our Sailors, retirees and their families in the way that they so richly deserve.*

---

NEX



***Mission***

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

***Accomplishments***

A new e-Commerce/consumer-direct fulfillment operation within NEXCOM's Southeast Distribution Center was opened to assist in mailing online orders. Upon the closure of the Speed Commerce facility in Ohio, a new state-of-the-art 204,000 sq. ft. fulfillment center was opened in Saddle Creek, Kentucky. This new fulfillment center only services NEXCOM, is located near a Fed Ex hub to improve outbound flow of goods and makes every attempt to hire veteran workers.

The Fresh Mart program expanded from nine to 60 locations generating over \$800,000 in sales. In addition to natural and organic foods, Fresh Mart locations began offering beverages and frozen and chilled products.

The NEX Mobile Offers program was launched to customers in the continental United States. The program allows customers to sign up to connect with the NEX through their mobile device which then gives them access to special offers and coupons through text messages as well as special online offers. Upon signing up, customers receive via text message a one-time-use mobile welcome coupon for \$10 off a purchase of \$50 or more. In the first month 40,000 subscribers signed up for NEX mobile offers.



NEX Norfolk, Va., Fresh Mart

Weekly marketing messages were rolled out to 22 NEX locations via Mood Media to allow advertising content to be displayed alongside live TV.

Two new private label apparel brands, Yarn and Sea and Eight Bells, in men's, women's and kids were launched. The merchandise assortment consists of knit and woven tops, sweaters and bottoms. Eight Bells in men's is priced at \$10 and \$12 while Yarn and Sea in women's is priced at \$8. Both brands in kid's are priced at \$5. The brands are available in all main stores and at myNavyExchange.com. Sales totaled \$2.5 million during the year.

Partnered with Petco, Office Depot, Vitamin Shoppe and CVS to bring familiar brands and merchandise to NEX customers. Sales for the year for these brands were over \$520,000.

A Birthday Card Program was implemented which offers a \$10 coupon to customers who recorded their birthdate when they opted-in to receive marketing information from the NEX.



Two new private label apparel brands

The 1-800-FLOWERS.com exclusive family of brands was launched on myNavyExchange.com. Available through the NEX Marketplace, customers can purchase gift items from Harry & David, Simply Chocolate, 1-800-baskets.com, fruitbouquets.com, Cheryl's Cookies, Personalization Universe, the Popcorn Factory, Wolferman's, Goodsey and Stock Yards. Customers save 20% on purchases when using promo code MYNEX.

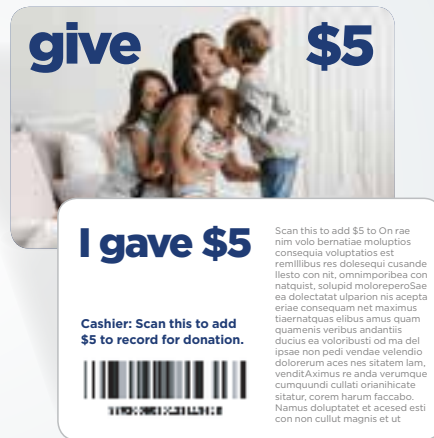
In July, the Office of the Under Secretary of Defense for Personnel and Readiness directed the sale of beer and wine in select commissaries in the continental United States. NEXCOM worked with its sister military exchanges and DeCA to define an execution roadmap inclusive of price parity integrity, item/pricing maintenance strategy, assortment governance/ownership and funding recovery. Of the 12 CONUS commissary locations identified for the pilot launch, NEXCOM was responsible for execution at the JEB Little Creek, Va.; Lakehurst, N.Y.; and Port Hueneme, Calif., commissaries.



NEX Birthday Card Program

The first Drop Ship Program was launched in November on myNavyExchange.com with Ashley Express furniture. This program offers customers thousands of items that ship directly to the customers' home. The Million Dollar Baby Drop Ship Program launched in January 2019 allowing customers to purchase a variety baby items. The drop ship program will be expanded into other merchandise categories as it is a convenience to customers and eliminates the burden of inventory risk for NEXCOM.

A “‘We Believe!’ It’s More than Just a Toy” video was created for use on NEXCOM’s social media accounts. The video generated over 1.2 million views, 11,000 shares and 10,000 comments including a retweet from Lynda Carter, the original Wonder Woman, as well as news articles in several publications.



Navy-Marine Corps Relief Society (NMCRS) coupon event

NEX customers supported the Navy-Marine Corps Relief Society through two benefit coupon events. During the events, participating NEX locations accepted \$5 donations from patrons who received a special coupon for future NEX purchases. Total donations accepted from NEX customers were \$388,146.

Twelve Micro Markets opened during the year at Naval Station Pearl Harbor; Naval Support Activity Charleston, S.C.; Naval Base Kitsap, Wash.; Naval Air Station Lemoore, Calif.; Naval Support Activity Panama City, Fla.; Navy Gateway Inns and

Suites Newport, R.I.; three at Naval Base Point Loma, Calif., NSA 2 Bahrain, the first Micro Market located overseas and within a barracks; Naval Air Station Jacksonville, Fla., barracks; and Naval Air Weapons Station China Lake, Calif. By the end of 2018, there were 29 Micro Markets operating across the enterprise with sales totaling \$6,726,381.

NEX Bahrain celebrated the ground breaking for its new NSA 2 Bahrain mini mart, expected to open in Spring 2020. This new 5,000 sq. ft. facility will offer assorted beverage, food, health and comfort items and food bar. The store will serve the 1,100 single Sailors who live on NSA 2 and those who work at the pier side base.

NEX New London, Conn., held its grand opening on May 24. The \$13.9 million project, which doubled the size of the NEX, features a new food court and escalator and boasts an expanded sporting goods, uniform, consumables, housewares and small appliance departments. In addition, the lawn and garden seasonal departments as well as the entire former Package Store have all been consolidated into the new main store.

NEX Corpus Christi, Texas, held the grand opening for its newly renovated store on June 20. The renovations, completed by NEXCOM's Mid-South District Facilities team, relocated customer service to front of store and created a central checkout for more customer convenience. Floor space was expanded by 1,200 square feet to create an Ashley Micro Furniture Gallery, move major appliances into the main store and create a Below Deck area. In addition, the electronics department was relocated, the customer restrooms were

refreshed and the store was updated to ensure it was ADA compliant. For NEX associates, new administrative offices, a breakroom and an associate entrance were created.

NEX Yorktown, Va., held a groundbreaking ceremony on Jan. 28 for a 2,500 sq. ft. expansion. As part of the \$2.5 million expansion and renovation, the uniform and tailor shops will be enlarged, a fourth chair will be added in the barber shop and the frozen and perishable food assortment will be expanded. In addition, the sales floor will be reconfigured to provide for better customer atmosphere and flow and free Wi-Fi will be installed. The new store is expected to open in late 2019.

NEX Lemoore, Calif., held a ground breaking ceremony on Jan. 25 for its new \$3.1 million gas station. The gas station, which replaces the current station on the admin base, is expected to open in fall 2019.

Stars & Stripes announced that NEX Yokosuka, Japan, once again won the Best of the Pacific award for mainland Japan. This is the ninth straight year NEX Yokosuka has won this award. In addition, a new category was added this year for best mini mart. NEX





Guantanamo Bay Customer Appreciation Weekend



Jared Ashley

Yokosuka won that award as well. NEX Guam was again awarded Stars and Stripes’ “Best of the Pacific.”

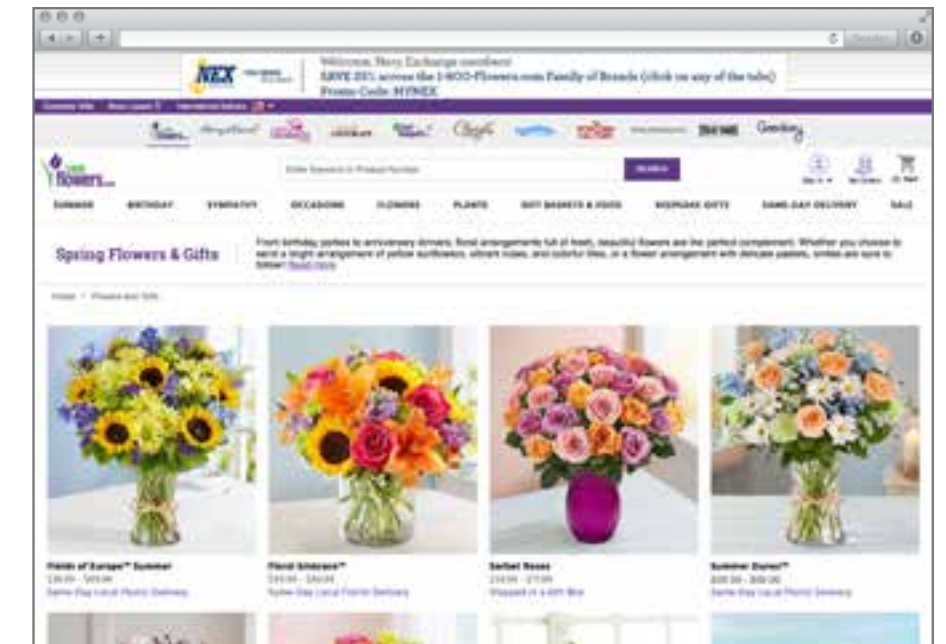
NEX Bahrain successfully launched its Women, Infants, and Children program. NEX Bahrain is the only NEX (non-NEXMART) to accept WIC.

For the first time, most NEX locations did its annual physical inventories in July vs. January. In addition, NEXCOM distribution centers converted to cycle counts vs year-end physical inventories. NEX and distribution center locations achieved a 0.22% inventory shortage result, an improvement of over \$400,000 over last year’s results and 83% below the national average of 1.33% according to the 2018 National Retail Security Survey by the National Retail Federation.

myNavyExchange.com successful migrated to its own Order Management System and payment gateway solution. This allows NEXCOM to be in control of its own e-Commerce functionality while allowing for new fulfillment options to better serve customers.

Two Customer Appreciation Weekends were held during the year. Guantanamo Bay’s Customer Appreciation Weekend included entertainers included Yung Joc, Imagination Movers, Glow Rage Pain Party, Van’s BMX Bike and Skate team and Messlords Celebrity Chefs Color Run.

The ninth annual Customer Appreciation event in Yokosuka, Japan, combined the efforts of the NEX, MWR and DeCA, and featured a BMX/skate demonstration by Vans, entertainment from country recording artist, Jared Ashley; a 5K “Running with the Bulls” race; a concert by the Miami



The 1-800-FLOWERS.com exclusive family of brands was launched on myNavyExchange.com

fusion band, Xperimento; a performance by magician, Bill Herz; Sideswipe martial arts performance team; and a book signing with Medal of Honor recipients Maj. Gen. James Livingston (USMC) and Col. Roger Donlon (USA).



# 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 \$56.9 million which generated a net profit of \$7.4 million. Sales from coffee bars aboard Navy ships were equal to 9% of total sales with over \$1.4 million in profits. The program reinvested \$0.3 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.

The ships stores aboard USS RAMAGE (DDG 61), USS JOHN FINN (DDG 113), USS GUNSTON HALL (LSD 44), USS BLUE RIDGE (LCC 19), USS STETHEM (DDG 63), USS PRINCETON (CG 59), USS RUSSELL (DDG 59), USS HUE CITY (CG 66), USS PORTLAND (LPD 27), USS ROOSEVELT (DDG 80), USS HARPERS FERRY (LSD 49) and USS MILIUS (DDG 69) were branded which included merchandising resets, visual cues and training to bring them up to the new ships store standard. This brings the total number of branded ships stores to 90.

---

A ribbon cutting ceremony was held for the ships store ashore at Naval Support Facility Diego Garcia. The store underwent a renovation that included expanding merchandise assortments in nearly every category including food, drinks, health and beauty items, clothing, shoes, uniform items, souvenirs and gifts as well as new checkout counters and carpeting and display and refrigerator cases. The store also received new NEX branding elements and store signage to make it look and feel more like a NEX.

A total of 16 ships and two ashore stores were implemented with the ROM 3 maintenance upgrade to ROM 2. This included three guided-missile cruisers, three aircraft carriers, seven guided-missile destroyers, two Navy Amphibious “L” deck ships and one Expeditionary Sea Base ships and ships stores ashore San Nicholas Island and San Clemente Island, Calif.

Working with NEXCOM’s Distribution and Merchandising Departments, the Ships Store Program began providing all of the top-selling items on the 1Q list through overseas distribution centers at prices equal to or below those through the Defense Logistics Agency and with a significant reduction in distribution costs. The 1Q COG Japan/Guam initiative saved the Navy \$2 million over a five-year period by using the NEX to purchase merchandise. Merchandise support to the 5th Fleet is provided via the NEX Bahrain distribution center with 6th Fleet support is provided via the NEX Naples, Italy, distribution center. 

...the Ships Store Program began providing all of the top-selling items on the 1Q list through overseas distribution centers at prices equal to or below those through the Defense Logistics Agency and with a significant reduction in distribution costs. ***The 1Q COG Japan/Guam initiative saved the Navy \$2 million over a five-year period by using the NEX to purchase merchandise.***

# Navy Lodge



Navy Lodge Norfolk



Navy Lodge North Island

## ***Mission***

To provide reasonably priced, quality lodging facilities for its guests.

## ***Accomplishments***

Navy Lodge occupancy was a record high 87.1%. Permanent change of station room nights sold increased 6% compared to the Navy Lodge Program budget. Overall guest satisfaction rating was 92 out of 100.

Over 19,500 room nights were utilized by medical/wounded warriors at Navy Lodges worldwide.

Navy Lodges Gulfport, Miss., Pensacola, Fla., and North Island, Port Hueneme and San Diego, Calif., provided support and accommodations to military families and firefighters during hurricanes and wild fires.

The DoD Lodging Reservation Center received over 563,000, a record number. Calls were answered within an average of 59 seconds or less.

The Navy Lodge PCS scratch card resulted in over 22,000 room nights discounted at a savings of over \$180,000.

The Navy Lodge holiday promotion offered 20% off the regular room rate at select Navy Lodge locations Nov. 22, 2018 – Jan. 2, 2019. Over 2,400 room nights were discounted at a savings of over \$39,000.


---

A new kitchen concept was developed which provides additional counter space to allow for more family interaction. Bathroom and kitchen upgrades and lobby remodels continue in support of ever-changing trends.

Guest room resets, including new furniture, paint, lighting, art and window treatments, was completed at Navy Lodge Patuxent River, Md., Navy Lodge Newport, R.I., Navy Lodge Mayport, Fla., and Navy Lodge Port Hueneme, Calif. In total, reset projects were completed on 151 Navy Lodge rooms worldwide.

Lobby resets were completed at Navy Lodge Fort Worth, Texas and Navy Lodge Kings Bay, Ga. The lobbies were completely redesigned with breakfast area, new flooring, new front desk, lobby furniture and signage.

The Navy Lodge mattress and box springs recycling program resulted in a 123 ton diversion out of landfills. A total of 459 tons has been diverted since the program started in 2016.

The Navy Lodge Program ended 2018 with 39 operations and 3,137 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*

AT&T has agreed to continue afloat calling services through 31 Dec. 2019 so that currently deployed units and those deploying late 2018 through mid-2019 will continue to have access to afloat calling. AT&T previously planned to discontinue the service effective 31 Dec. 2018.

As part of the NEXCOM's "We Believe!" holiday events, more than 30,000 deployed and forward deployed Sailors and Marines received either a free \$10 prepaid card or virtual calling minutes using a virtual personal identification number. Both the card and VPIN can be used aboard U.S. Navy ships or via shore-based telephone systems in the US and overseas.

Wireless Advocates, the NEX Mobile center provider in the continental United States, solidified its selling capabilities and relationship with Verizon Wireless to sell Certified Pre-Owned devices in a limited number of the largest/high volume military exchange locations.

---

Residential and business class Voice Over Internet Protocol services were made available via subscription at Naval Station Guantanamo Bay, Cuba. As an additional feature, an app can be installed on any smart phone, PC or tablet which permits VoIP calls to be originated from and received on the device.

Wireless Advocates began selling the Sapphire International Mobile Hotspot, an unlocked network solution designed to bring world travelers secure, private Wi-Fi on-the-go. The service is available on all overseas bases except Bahrain and Djibouti.

AT&T continued to support the activation of point-of-sale activated prepaid calling cards. NEX Recruit Training Center Great Lakes, Ill., will retain the capability to order and activate AT&T prepaid calling cards for recruits.

A new Wi-Fi network went live in Souda Bay, Greece. The new Wi-Fi service offers a big quality of life benefit to military personnel living and stationed at Naval Support Facility Souda Bay.

---

Cellular Telephone Internet Service Provider redundancy was installed in 75% of Navy Lodges in the continental United States. This upgrade allows the guest's in-room phones to automatically change over to cellular service in the event of an ISP failure, ensuring no lapse in phone service.

Gained concurrence from Commander, Navy Region Japan and Commander Navy Installations Command to provide all unofficial/personal telecommunication use at all Navy bases within the Japan region.

To meet customer demand and continue to provide standardized Internet services, contracted with ViaSat to upgrade bandwidth on 78 unaccompanied housing locations, 33 Navy Lodges and 62 NGIS totaling 100 Gbps at no cost to the Navy.

Wi-Fi service was added to 13 Navy medical facilities and 14 NEX locations, including main stores, mini marts and Car Care Centers. A NEXCOM led Wi-Fi network was also installed on Naval Support Activity Souda Bay, Greece. 🇺🇸



# Uniform Program Management Office



## *Mission*

Since 1976, NEXCOM's Uniform Program Management Office 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.

*NEX Uniform Shops* worldwide outfitted 5,417 Chief Petty Officer selectees with their Navy uniforms, a 9.1% increase over the previous year.

## *Accomplishments*

The rollout of the Navy Working Uniform Type III uniform was completed in seven months, 17 months ahead of schedule. The uniforms were also made available at AAFES and MCCS Uniform Shops to support Sailors stationed in non-Navy centric locations.

Introduced the I Boot 4 and incorporated four improvements recommended during a wear test (fully lined with moisture wicking fabric, padded collar, "wedge" upper pattern,

Vibram fire and ice outsole) in Oct. Plan to test an even better sole that would be common in all Navy operating environments (flight decks, shipboard, ashore). These will eventually replace the current Sea Bag issues boots as the “I Boot 5.”

In January, after initial evaluation of sizing correlation data entry, a body scanner was installed at NEX Newport, R.I., Uniform Shop to help with sizing prediction and data verification with Officer Candidate School candidates. A second body scanner was installed in June at NEX Norfolk, Va., Uniform Shop for use during Chief Petty Officer Season. Data collected from the scanners will be used to update size predictions for both male and female uniforms.

An Integrated Logistics Support Management Team was implemented to do a comprehensive evaluation of both Navy dress and working uniforms with regards to future design, pattern, inventory and configuration changes as well as Fleet comments, contract updates/renewals, existing backorders, size shortfalls and production problems.

Based on language in the 2017 National Defense Authorization Act language requiring all military services to implement and distribute Berry Amendment compliant athletic footwear to recruits at initial entry training, NEXCOM began issuing the shoes in April 2019 to all recruits at Great Lakes as well as Officer Candidates at Newport.

The manufacturing of the Navy’s Sea Bag physical training uniform was successfully transferred to Defense Logistics Agency Troop-Support. While the Optional Physical Training Uniform consisting of the new



Optional Physical Training Uniform

CNO design "Forged by the Sea" T- shirt and redesigned PT shorts was rolled out at six NEX locations and the Customer Contact Center in late Nov.

NEX Uniform Shops worldwide outfitted 5,417 Chief Petty Officer selectees with their Navy uniforms, a 9.1% increase over the previous year. 📌

## Navy Working Uniform (NWU) Type III





# The Navy Clothing and Textile Research Facility



## *Mission*

To maximize the quality of life for Navy Sailors through uniform and protective clothing development and sustainment.

## *Accomplishments*

In the first quarter of 2018, the Department of the Navy launched a new branding slogan, “Forged by the Sea.” To capture survey feedback and to reinforce the new branding, NCTRF was tasked with developing a short-term and a long-term physical training uniform roll-out schedule. The short-term initiative accelerated research and design for a new Optional Physical Training Uniform. NCTRF conducted market research for technical fabrics, developed shade and prototyped samples based on leadership guidance regarding color scheme, logos, materials and design details. The OPTU was available for purchase at six NEX locations and NEXCOM’s Customer Contact Center in late Nov. The long-term initiative is to design an improved physical training uniform for sustainment as a Sea Bag item.

On a fast track effort, NCTRF improved the fit/design of the female service slacks and skirts to address documented dissatisfied customer comments related to this uniform. NCTRF improved the fit on the slack patterns by lowering the waist to fall midrise (at high hip), shortening the crotch and modifying the darts. While the skirt profile was modified to be a straight design, welt pockets were

## LOOK FOR THE TAG

The *improved slacks design* incorporates a lower waist, reduced rise (top of inseam to waist) and reduced zipper closure length. The *improved skirt* incorporates a straight line design.



removed and a waistline pocket was added. Two fit clinics and a limited user evaluation were conducted to validate the "New Fit" women's skirt and slack. Both were certified and production began for the Service Dress white and khaki uniforms. The New Fit uniforms will be available at NEX Uniform Shops in early 2019.


Using FY15 Size Correlation Study anthropometric data, NCTRF contracted with Alvanon, a commercial apparel consultant, to use the data to create and establish standardized patterns, fit and size for Female Service Uniforms. The resultant from this effort will create efficiencies for current and new uniform creation. Improvements to uniform sizing will minimize alterations and eliminate excessive SKUs and inventory.

The I-Boot 4, which incorporates the four enhancements from the FY17 study - a padded collar, a wedge upper pattern, fully lined with a moisture wicking liner and an improved rubber outsole formulation, went into production with a planned availability in NEX Uniform Shops in early 2019. The I-Boot 4 is an optional Navy black steel toe boot, developed based on Sailor feedback, which can be worn ashore and afloat with all working uniforms.

NCTRF was funded by USFF to support an initiative to develop a professional-looking, lightweight comfortable and durable inherent FR uniform to be worn on and off ship. A user evaluation was conducted to evaluate the inherent fire resistant 2-Piece uniform in four different fabrics, various design features, and colors: khaki (E7 & above) and blue (E6 & below). Concurrently, an extensive physical, biophysical and flame testing was conducted on all of the candidate fabrics and finished garments. Participants responded to online user surveys and participated in focus groups.

Due to a lack of available cotton fabric, NCTRF worked with DLA and industry to establish interim material solution of 100% texturized polyester material and a re-engineered specification for the white hat was introduced in order to avoid a supply failure. Concurrently, NCTRF issued a request to industry for alternative sources of cottons as well as potential alternative fabric blends. Identified challenges were with the US Ceremonial Guard unique brim roll which is currently being addressed.

The optional V-neck acrylic pullover sweater was redesigned to be classified as a gender neutral fit. NCTRF modified the patterns, updated the technical documents and worked with industry to produce samples that were certified.

Certifications were completed on the Special Warfare Combatant-Craft Crewmen miniature metal device, the Engineering Duty Officer Insignia, the Cold Weather Parka rank tab loops, the Improved Flame Resistant Variant coverall collar ranks and the NWU Type III embroidered O-6 rank loop. 



Engineering Duty Officer Insignia



Special Warfare Combatant-Craft Crewmen miniature metal device

# 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*

The Chief of Naval Operations Adm. John M. Richardson awarded the Navy Meritorious Unit Commendation to NEXCOM for meritorious service from Aug. 1 – Nov. 30, 2017, for its response and recovery efforts following Hurricane Irma. Twenty-six NEXCOM Enterprise associates from headquarters and the Southeast and Mid-South districts were specifically honored for their work with the Naval Supply Systems Command's Fleet Logistic Center Jacksonville, Fla., Enterprise Logistics Response Team. In addition, several NEXCOM headquarters associates received coins from the NAS Key West, Fla., Commanding Officer for their assistance during Hurricane Irma's recovery efforts as well. Being awarded the Navy Meritorious Unit Commendation is a significant achievement for a Navy command.

Throughout the year, NEXCOM participated in several cooperative efforts with the Defense Commissary Agency. In June, 43 NEX locations began selling Commissary gift cards to customers. In October, NEX gift cards were available for purchase in commissaries on Navy bases.





---

The NEX gift cards are located at the front end of the commissary sales areas and carry an open value price range of \$5-\$1,500. Next, a test was launched at Joint Expeditionary Base Little Creek-Fort Story, Va., in which NEX associates stocked commissary shelves. In addition to helping keep the shelves stocked, these associates look for outdated items that need to be removed. The MOA was extended and a second was drafted for the Naval Base San Diego commissary. This was the first MOA DeCA had entered with a military exchange to utilize NAF associates. Finally, NEXCOM provided Click2Go services (online grocery pick-up) to the Fort Eustis, Va., commissary. NEXCOM provided 2,300 hours of labor resulting in \$35,000 in payroll which was billed to DeCA.

In the aftermath of Hurricane Michael NEXCOM stepped in to provide support to Naval Support Activity Panama City, Fla., and the mission essential personnel who were onboard the base assessing damage and doing initial cleanup. Pallets of water, tarps, batteries, generators and more were also sent to aid in the cleanup effort. Within four days of the base Commanding

Officer's request, a Mobile Retail Facility or "NEX on Wheels," was onsite to support NMCB11 Seabees with basic commodities such as sandwiches, jerky/chips and drinks. NEXCOM's Telecommunications Program Office worked with its nationwide contractor to establish three Wi-Fi hotspots at different common areas across the base to improve communication. Navy Lodge Pensacola, Fla., lent its support by ensuring rooms were available for 59 families displaced due to the storm.

Thirty-four contracts supporting other non-appropriated fund instrumentalities were administered with an annual value of \$146 million. In addition, NEXCOM placed delivery or task orders against 55 contracts awarded by other NAFIs or Federal entities valued at \$488 million.

A Fleet & Family Readiness Partnership Day was held at NEXCOM Headquarters to allow for a deeper review of concepts that could be mutually beneficial in a variety of common areas including marketing, procurement and

---

supply chain, contracting, loss prevention and safety and support services. The group's mission was to find ways to more align strategic messaging, leverage synergies/finding efficiencies and improve reach to, and support for, Sailors and families.

NEXCOM, along with the Defense Commissary Agency and the other military exchanges participated in the first-ever joint collaborative meeting to brainstorm ideas for joint marketing, MILITARY STAR® card promotions and other initiatives. The goal of the conference was to map out specific joint marketing strategies, promotions, events and communication efforts each month through early 2019. The group also focused on finding ways to better connect with its mutual customer databases to drive traffic and preserve the military shopping benefit for all. Past studies have shown that when customers shop on base, both the exchange and commissary benefit.

NEXCOM assumed responsibility from the Department of Defense Education Activity for the management of the Guam Student Meal Program for the 2018-19 school year. The Student Meal Program is expected to provide more than 120,000 school lunches annually for the children in elementary/middle/high school in Guam. With Guam, NEXCOM's School Meal Program now totals 20 overseas locations including Italy, Japan, Bahrain and Cuba and delivers more than 500,000 school meals to children annually. In addition, NEXCOM began serving breakfast at the DoDEA middle school at Naval Air Station Sigonella, Italy.


NEXCOM's Human Resources Department developed an Associate Concern Line guide for associates directing them on the appropriate agency to contact for a workplace issue such as an EEO matter or fraud, waste and abuse concern.

NEXCOM headquarters' Intern Program was improved

resulting in over 320 applications for 19 summer intern positions.

For the third year in a row, the non-profit group, Pay Away the Layaway, paid off layaway balances totaling nearly \$13,000 for 61 military families at five NEX locations.

For the seventh year in a row, LATINASStyle Magazine named NEXCOM as one of the Top 50 Companies for Latinas to Work. NEXCOM is the only U.S. Navy activity to receive this recognition. Over 11 percent of NEXCOM's 14,000 associates across the globe are Latino and nearly eight percent are Latina women.

Total NEXCOM Enterprise-wide safety claims were reduced 14% while the recordable claims were down 6%. In addition, NEX recordable claims were down 2%; distribution center recordable claims increased by 16% and Navy Lodge recordable claims increased 8%. 

# NEXCOM Fiscal Year 2018 Financial Review



Sales performance continues to be challenging in a competitive retail environment with overall sales coming in at \$2.5 billion, a decrease of 1.8% from last year. Retail sales were lower than last year by 5.1%, services revenue was higher than last year by 1.4% and gas sales were higher by 10.3%. Despite the overall sales shortfall, strong expense controls across the enterprise mitigated reduced margin dollars and resulted in an Operating Profit of \$48.5 million. Net income for FY18 was \$13.1 million compared to \$32.3 million in FY17 and was impacted by a significantly higher retirement expense compared to the prior year. The retirement expense of \$35.3 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 FY17.

The biggest component of the total enterprise performance was the retail segment which accounted for 73% of total sales. Profit generated from the retail segment decreased by 3.2% from last year largely due to lower sales, higher advertising expense and higher shipping and third party fulfillment expenses for e-commerce. The gross margin rate for FY18 was 25.24% versus 24.90% in FY17.

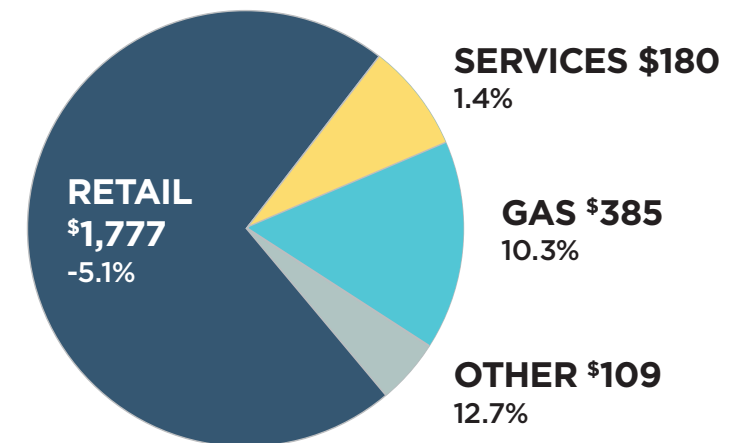
Sales from the services segment increased 1.4% from the prior year primarily due to sales increases in the vending program, which continued to expand its fresh food concept, and in the

embroidery department, which benefitted from increased uniforms sales related to a new uniform rollout. Gasoline sales increased 10.3% due to higher prices at the pump. The average price per gallon was \$3.05 in FY18 compared to \$2.66 in FY17. Government-issued Uniforms and cooperative efforts sales ("other income") increased 12.7%, largely due to the continued rollout of the Navy Working Uniform Type III.

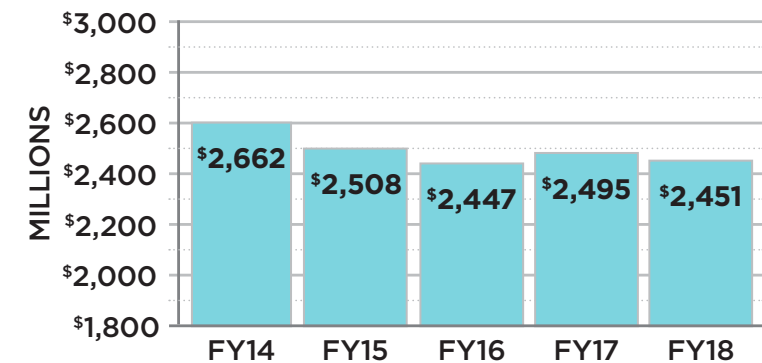
NEXCOM continues to provide savings in the form of a non-pay benefit as well as a cash dividend to the Navy's Morale, Welfare and Recreation (MWR) funds. In 2018, a modification was made to the existing MWR/NEX profit dividend split, effective for FY18 through FY20, which provides a guaranteed dividend of 70% of NEX net profit or \$33 million, whichever is greater. Based on this modification, dividends declared for FY18, including dividends paid to MWR under separate local agreements for vending and food service, totaled \$35.1 million. From this amount, a total of \$24.0 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 \$93.9 million this year compared to \$74.0 million last year. NEXCOM's store modernization program continues to be funded from operating cash flow. During FY18, \$59.3 million was spent on capital expenditures.

**Sales by Segment (Millions)  
And Change From Prior Year**



**Total Sales**





The Navy Lodge Program operates 39 Navy Lodges worldwide. The overall occupancy for 2018 increased to a record high rate of 87.1% as compared to 85.3% in the prior year. The average room rate increased to \$84.22 in FY18 compared to the average rate of \$83.99 in FY17.

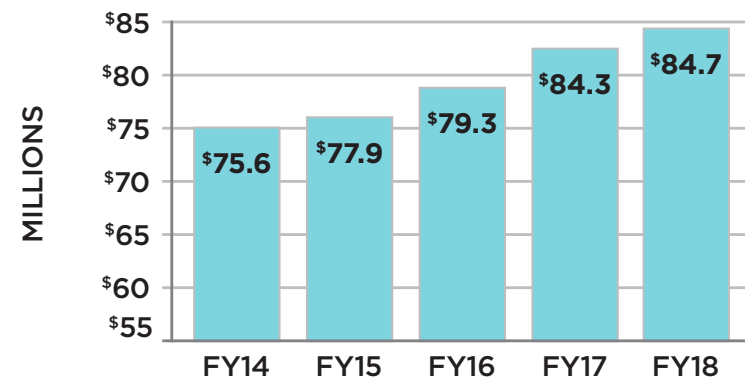
The Navy Lodge Program continues to save travel dollars while generating cash flow used for remodeling existing facilities and building new facilities. Net income in FY18 was \$12.2 million compared to \$13.4 million in FY17.

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

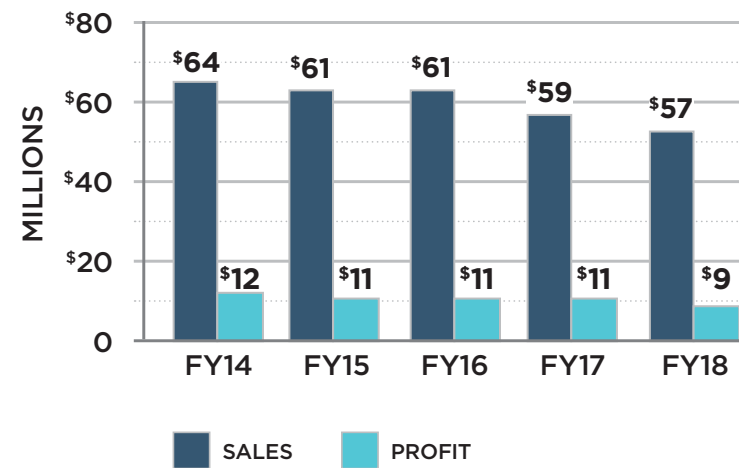


Ships Stores operated aboard 133 commissioned Navy ships. The program generated \$56.9 million in total sales and \$9.1 million in net profit for FY18. Commanding Officers use profits generated by each ships store to procure new equipment for the stores and to provide direct support to their ship's MWR programs. In FY18, ships stores generated profits of \$7.1 million for their use and \$1.2 million for CNIC to use in support of Fleet ships without a ships store, such as submarines.

### Navy Lodge Operating Revenues



### Ships Stores Sales and Profits





FOR THE FISCAL YEARS ENDED  
**FEBRUARY 2, 2019**      **FEBRUARY 3, 2018**  
 IN THOUSANDS OF DOLLARS

<b>INCOME STATEMENT</b>	» Total Sales	\$2,451,101	\$2,495,018
	» Income from Concessions - Net	\$42,272	\$41,065
	» Contributed Services Revenue	\$76,389	\$77,733
	» Other Revenue	\$5,355	\$3,506
	<b>TOTAL REVENUES</b>	<b>\$2,575,117</b>	<b>\$2,617,322</b>
	» Cost of Sales	\$1,896,263	\$1,925,869
	» Selling, General and Administrative Expenses	\$564,612	\$560,989
	» Contributed Services Expense	\$76,389	\$77,733
	» Other Income - Net	\$10,624	\$7,668
	» Operating Income	\$48,477	\$60,399
	» Retirement Expenses	\$35,349	\$28,140
	<b>NET INCOME</b>	<b>\$13,128</b>	<b>\$32,259</b>
<b>PROFIT DISTRIBUTION</b>	» Dividends Declared	\$35,064	\$23,082
<b>ASSETS</b>	» Cash & Accounts Receivable	\$400,741	\$351,816
	» Merchandise Inventories & Other Current Assets	\$478,641	\$487,805
	» Property/Equipment & Other Long-Term Assets	\$612,622	\$646,632
	<b>TOTAL ASSETS</b>	<b>\$1,492,004</b>	<b>\$1,486,253</b>
<b>LIABILITIES AND NET ASSETS</b>	» Trade Accounts Payable & Accrued Liabilities	\$239,568	\$265,373
	» Other Current Liabilities	\$236,617	\$217,936
	» Long-Term Liabilities	\$406,721	\$305,781
	» Net Assets	\$609,098	\$697,163
	<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$1,492,004</b>	<b>\$1,486,253</b>





FOR THE FISCAL YEARS ENDED  
**FEBRUARY 2, 2019**      **FEBRUARY 3, 2018**  
 IN THOUSANDS OF DOLLARS

<b>INCOME STATEMENT</b>	» Operating Revenue	\$84,748	\$84,295
	» Contributed Services	\$4,701	\$4,316
	<b>TOTAL REVENUES</b>	<b>\$89,449</b>	<b>\$88,611</b>
	» General and Administrative Expenses	\$78,728	\$76,684
	» Operating Income	\$10,721	\$11,927
	» Other Income - Net	\$1,429	\$1,505
	<b>NET INCOME</b>	<b>\$12,150</b>	<b>\$13,432</b>
<b>ASSETS</b>	» Cash and Other Current Assets	\$194,898	\$174,706
	» Property and Equipment - Net	\$122,630	\$130,337
	<b>TOTAL ASSETS</b>	<b>\$317,528</b>	<b>\$305,043</b>
<b>LIABILITIES AND NET ASSETS</b>	» Accounts Payable	\$3,628	\$3,293
	» Net Assets	\$313,900	\$301,750
	<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$317,528</b>	<b>\$305,043</b>



		FOR THE FISCAL YEARS ENDED	
		SEPTEMBER 30, 2018	SEPTEMBER 30, 2017
	» Ships Stores Sales	\$51,882	\$53,574
	» Vending Sales	\$5,060	\$5,580
<b>TOTAL SALES</b>		<b>\$56,942</b>	<b>\$59,154</b>
<b>NET PROFIT FROM OPERATIONS</b>		<b>\$9,065</b>	<b>\$10,472</b>
<b>PROFIT DISTRIBUTION</b>	» Assessment for CNIC	\$1,248	\$1,188
	» Equipment for Ships Stores	\$710	\$1,271
	» Profits Retained for Morale, Welfare and Recreation	\$7,107	\$8,013