



2019

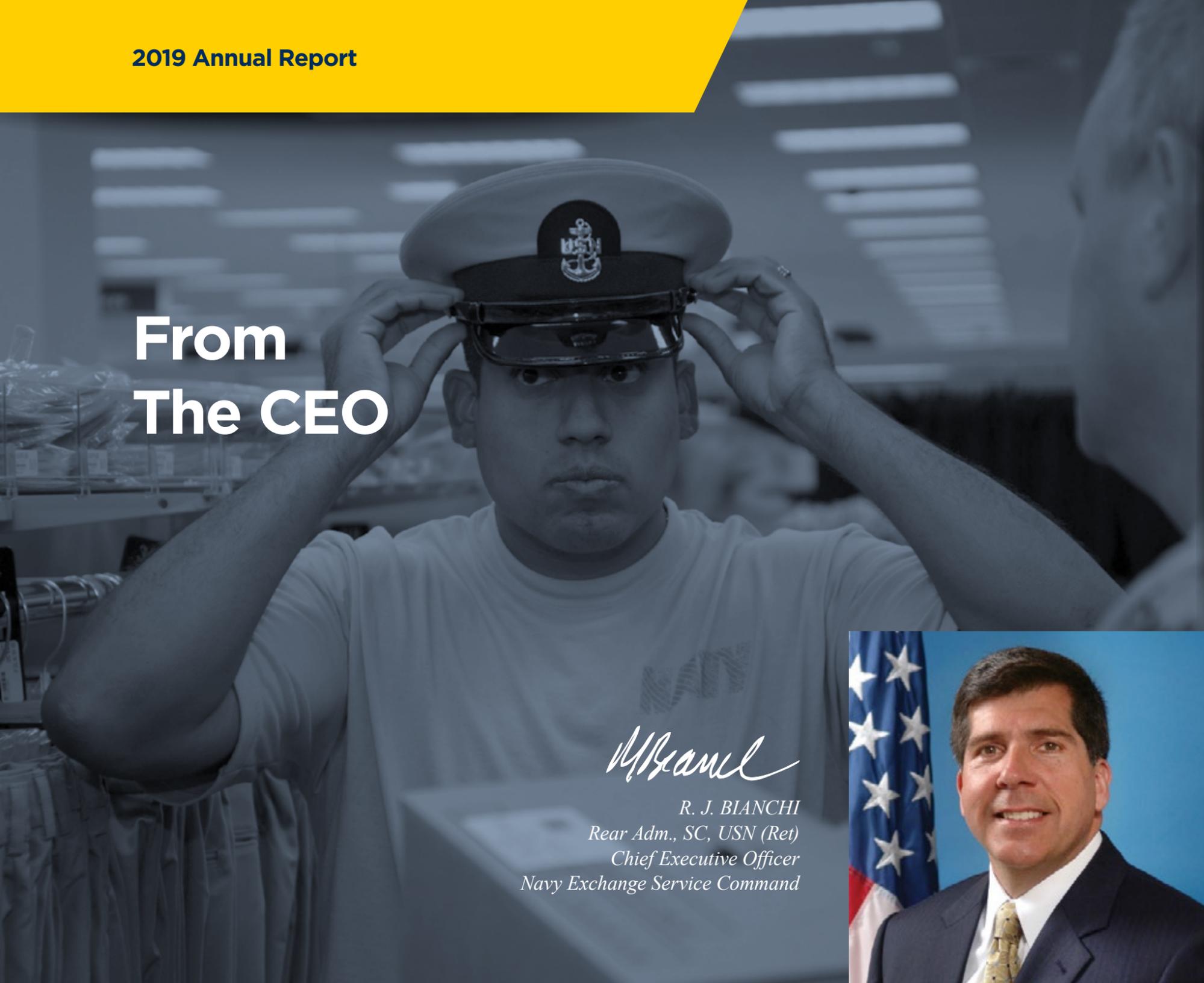
Annual Report



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 (NEXCOM) 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 2019, our total annual sales were \$2.3 billion, a decrease of 4.7% from last year. Despite the overall sales shortfall, strong expense controls across the enterprise mitigated reduced margin dollars and resulted in an Operating Profit of \$13.4 million. Based on a modification made in 2018 to the existing Morale, Welfare and Recreation/NEX profit dividend split, we gave \$35.2 million to support Navy MWR quality of life programs. Our Navy Lodge Program had an annual operating revenue of \$86.7 million and a net income of \$13.6 million. Finally, sales for our Ships Store Program were \$58.4 million with a net profit of \$9.7 million.

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

Within NEXCOM, our nearly 13,000 associates around the world understand the service and duties of our nation's military members since nearly half of them are 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.

Sales performance continues to be challenging in a competitive retail environment. To ensure authorized patrons continue to receive even greater savings, the military resale community, which includes the Army & Air Force Exchange Service (AAFES), Marine Corps Community Services (MCCS), Coast Guard Exchange (CGX) and Defense Commissary Agency (DeCA), signed a memorandum of understanding to establish a joint buying alliance. The agreement provides guidelines for a purchasing alliance involving retail merchandise and any other items sold by two or more of the organizations.

Throughout the year, NEXCOM continued to be engaged in an ongoing consolidation initiative related to our NEX and a privatization initiative with Navy Lodge Programs. With respect to NEX consolidation, a Department of Defense memo and report to Congress, titled, "The Department of Defense Report on the Development of a Single Defense Resale System," supported continued consolidation planning by the Secretary of Defense's Community

Services Task Force. By year's end, both houses of Congress asked the Government Accounting Office to evaluate the Business Case Analysis prior to any implementation efforts. As for Navy Lodge privatization, the Secretary of the Navy signed out a memo to begin a lodging privatization initiative within the Navy and Marine Corps. The steps outlined in the memo include identifying lodging requirements of our service members and engaging with industry for information to help inform the approach to the initiative. As of July 14, 2020, the newly confirmed Secretary of the Navy issued a memorandum rescinding all lodging privatization efforts.

As we move into 2020, the NEXCOM Enterprise and its associates will continue to stay laser focused on our mission and going that extra nautical mile to serve our Sailors, retirees, veterans and their families. 🇺🇸



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NEX



MISSION

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

ACCOMPLISHMENTS

A White Glove Team was established for customer service issues and questions that are unable to be resolved by the Customer Care Center or for those issues are sent directly to the command through social media or other means. During the year, NEXCOM's White Glove Team resolved 1,713 customer issues.

Thirteen new Micro Markets opened for a total of 41 across the enterprise. Newly opened locations include Naval Air Station Key West, Fla., NGIS; NEXCOM's Northeast Distribution Center, Suffolk, Va.; Naval Air Station Fallon, Nev.; Naval Air Station Whidbey Island, Wash., Fleet Readiness Center; Naval Support Facility Dahlgren Va.; Naval Base Kitsap - Bangor, Wash., USMC Leatherneck Lounge; Naval Base San Diego, LCS Building 3304 and Building 55; Naval Air Station Oceana, Va., Hangar 500; Joint Base Anacostia-Bolling, Washington, D. C.; Naval Health Clinic Lemoore, Calif.; Naval Station Guam Hospital Gift Shop; and Naval Station Guam Frank's Café. Micro Market sales for the year were \$11.4 million.

The enterprise's first vending pet wash opened at NEX Guam on Oct. 26. The Woof Wash allows customers an alternative to washing their pet at home. The Woof Wash is open from 9 a.m. - 7 p.m. daily and costs \$10 for 12 minutes.

Partnered with Pearle Vision to bring national optical retail centers to NEX Oceana, Va.; NEX New London, Conn.; and NEX North Island, Calif. This is the first partnership with a national optical retailer.



NEX Pearl Harbor



Naval Air Station Oceana, Va., Hangar 500



NEX Norfolk, Va., mini mart/gas station

A new shoe divider program was implemented at NEX Patuxent River, Md., to move shoes from full-service to self-service. The divider system includes a display and a slot for a sign showing style and price. The system ensures that the shoes below match the display above, making both shopping and stocking easier. Due to positive customer and associate response, the new shoe divider program was implemented at NEX Oceana, Va.; NEX North Island, Calif., and NEX Pearl Harbor.

Expanded Natural & Organic dry grocery merchandise to 75 NEX locations. This program generated sales of \$2.55 million, which was up 300% to last year and the second year of sustained triple digit growth.

Launched retail brand partnership with Chico's FAS which includes White House Black Market, Chico's and Soma brands as well as Destination Maternity, Motherhood Maternity and PINK apparel. Total sales from all brands were over \$2 million for the year.

NEX Norfolk, Va., cut the ribbon on its new 6,000 sq. ft. mini mart/gas station on Feb. 28. The new mini mart features 12 gas pumps in addition to an expanded food and beverage assortment which includes an option for coffee and breakfast items.

NEX North Island, Calif., Touch 'N Go mini mart held a ribbon cutting ceremony for its newly remodeled store on March 20. The mini mart's renovation included new coolers, LED lighting, flooring, new paint, a food bar, branding and air conditioning.

NEX Newport, R.I., held the grand re-opening of its store on July 18. The project consolidated the package store into the main store for a one-stop shopping experience for customers. In addition, the garden and storage areas were enclosed and the outdated fixtures and flooring were replaced.



On Oct. 4, NEX Patuxent River, Md., opened its newly renovated store which included a 28,000 sq. ft. addition. The store now features new checkouts and customer service department, a new garden center, new home and electronics departments, a package store, food court and an electric vehicle charging station.

NEX Key West, Fla., held a grand re-opening celebration on Nov. 7. The \$3.8 million, 20-month renovation included new fixtures, lighting, new Barber/Beauty Shop and administration offices as well as a vendor supported fishing department, expanded assortment of chilled and frozen food and beverages, expanded electronics department, new jewelry, watches and sunglass department, larger souvenir shop and additional cash registers to expedite the checkout process.

Signed a marketing contract with the Naval Academy Athletic Association that placed NEXCOM in a "Lead Partner" status thru 2022. As part of this contract, the Navy Academy Athletic Association website, www.NavySports.com, has a rotating NEX banner with click thru to myNavyExchange.com. In addition, the NEX is featured on scoreboards, in programs and in radio spots for Naval Academy sports. In return, NEX locations within a three hour radius of Annapolis, Md., feature in-store radio messaging of Naval Academy athletics.

NEXCOM's Marketing Department sent 142,873,366 emails to customers, a 14% increase over the prior year; drove 19,880,281 email opens, a 41% increase; and generated 2,171,627 clicks, a 20% increase over last year.

Celebrated the first anniversary of NEX Birthday Card program with a new card design. In the first year, 152,000 birthday cards were distributed with 42,000 redemptions with a \$63 average cash register transaction.

Created and launched new e-gift card email, which allows for in-store redemption of e-gift cards purchased online at myNavyExchange.com.

Executed new heat-mapping tools on myNavyExchange.com to track customer behavior and conduct testing which allows NEXCOM to try two different approaches to a promotion or placement on the web store to see which receives a higher customer response. 📍



Ships Store Program



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

Ships store sales were \$58.4 million which generated a net profit of \$8.3 million. The Ships Store Program reinvested \$0.2 million in capital expenditures, distributed profits of \$9.3 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 8% of total sales with over \$1.9 million in profits generated.

An additional nine ships stores were branded with new merchandising reset and training that make up the new ships store standard. Those ships included USS MICHAEL MONSOOR (DDG 1001), USS CHAFFEE (DDG 90), USS PAUL HAMILTON (DDG 60), USS LASSEN (DDG 82), USS RUSHMORE (LSD 47), USS PHILLIPPINE SEA (CG 58), USS DONALD COOK (DDG 75), USS HOWARD (DDG 83) and USS RALPH JOHNSON (DDG 114). The total number of ships stores branded stands at 99.

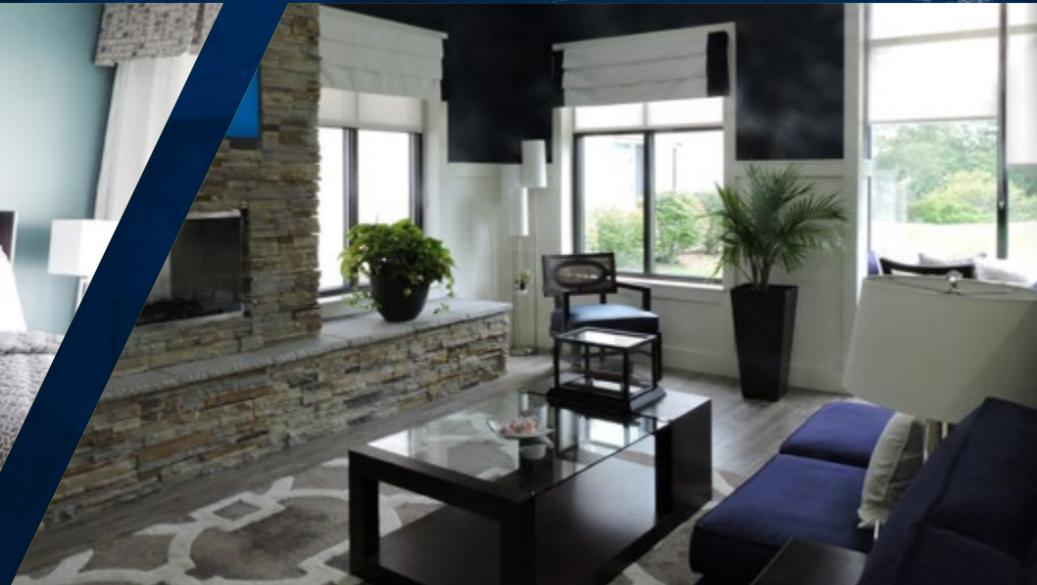
With the installation of its ROM 3, USS ZUMWALT (DDG 1000) is the last U.S. Navy ship in the fleet to receive the software. The final ships store ashore in Diego Garcia also implemented ROM 3. ROM 3 enables ashore staffs to monitor sales activity and operating results in a near real time basis, enables shipboard users to benefit from a more robust and reliable application that meets all security requirements and increases their ability to receive support from ashore to troubleshoot and resolve issues.

NEX Rota, Spain, came on line for 1Q COG support on May 1. With the addition of NEX Rota, 1Q COG supports ships stores afloat overseas at NEX Bahrain, NEX Souda Bay, Greece; and NEX Naples, Italy. In 2019, 18 1Q COG orders were submitted across the fleet totaling \$180,000. Working with NEXCOM's Distribution and Merchandising Departments, these all of the top-selling items on the 1Q COG list are offered through overseas NEX distribution centers at prices equal to or below those through the Defense Logistics Agency (DLA) and with a significant reduction in distribution costs. 

Navy Lodge Program



Navy Lodge North Island



Navy Lodge New London

MISSION

The mission of the Navy Lodge Program is to provide reasonable priced, quality lodging facilities for its guests.

ACCOMPLISHMENTS

Navy Lodges achieved an occupancy rate of 86.7%, a record high percentage. Medical patients and Wounded Warriors utilized over 17,000 room nights at Navy Lodges worldwide. The overall guest satisfaction rating, from guest survey results, was 92 out of 100.

The Navy Lodge Program saved Department of Defense and Department of the Navy travelers on official business over \$50 million. On average, the Navy Lodge Program sets its room rates at 65% of the temporary duty per diem rate and does not charge occupancy tax, thus saving money.

Navy Lodges were instrumental in providing humanitarian support, lodging, logistics and Installation recovery for military members and their families during weather events such as wildfires, hurricanes and severe weather.

Permanent change of station (PCS) room nights were at their second highest year ever with 43,000 unique stays for 357,000 room nights. In addition, the Navy Lodge Program's PCS scratch cards used by military members resulted in over 37,000 room nights discounted and a savings of over \$320,000.

The Department of Defense Lodging Reservation Center received over 535,000 calls which were answered within 46 seconds or less on average.

Resets were completed on 550 guest rooms at Navy Lodges Great Lakes, Ill.; Jacksonville and Mayport Fla.; Kings Bay, Ga.; Lemoore, Calif.; and Norfolk and Oceana-Dam Neck, Va. The resets included new kitchens, bathrooms and vanities, new furniture, flooring, bedding, art, paint, lighting and window treatments.



Family suites were created at Navy Lodge Fort Worth, Texas. A lobby and support space reset, including new work stations, furniture, carpet and paint, was completed at Navy Lodge Annapolis, Md. A lobby, corridor and guest room reset, including new carpet, bedding and window treatments, was completed at Navy Lodge Patuxent River, Md.

The Navy Lodge Program's 50th Anniversary was celebrated worldwide with events throughout the year. Sammy the Sailor, the 50th Anniversary mascot, visited every Navy Lodge and participated in the celebrations. The Navy Lodge Program was created in 1969 to bolster scarce housing options for military families during PCS moves.

The Navy Lodge Loyalty Promotion offered 20% off the regular room rate at select Navy Lodges from Nov. 27, 2019 – Jan. 5, 2020.

Over 5,600 room nights were discounted at a savings of approximately \$94,000.

The Navy Lodge web page link and DoD Reservation Center toll-free phone number were added to the MyNavy Portal app providing Sailors access to Navy Lodge information. The information is listed under "Moving and Relocation" and "Recreation, Lodging & Travel."

A redesigned Navy Lodge website, www.navy-lodge.com, was launched to provide a seamless experience for visitors. In addition to being easier to navigate and having a faster load time, the website can also be viewed on a phone, laptop or tablet. The

website includes information on each of the 39 Navy Lodges worldwide including its amenities, services offered on the Navy installation and suggestions on local eateries and recreation along with photos of Navy Lodge rooms and lobby.

The Navy Lodge Program was created in 1969 to bolster scarce housing options for military families during PCS moves

The DoD Lodging Reservation Center and the NEX e-Commerce teams developed a partnership to assist each other during peak call seasons by cross-training associates to handle both businesses. The DoD Lodging Reservation Center's peak season is April - September while the e-Commerce peak season is November-January. The sharing of resources saves the NEXCOM Enterprise money in hiring and training while supporting PREMIER Guest Service ideals.

The Navy Lodge Program ended 2019 with 39 Navy Lodges worldwide and 3,131 rooms. 📍

Telecommunications Program Office



**NEX
Connect**
Wireless reliability and so

MISSION

The mission of the Telecommunication Program Office is to serve customers by keeping them connected to family and friends 24-hours a day, seven days a week, on affordable and reliable networks, throughout their Navy journey from boot camp to retirement.

ACCOMPLISHMENTS

As the executive agent for unofficial personal use telecommunication, a customer-facing NEXConnect brand was launched across all afloat and ashore programs as a way for customers to recognize safe, reliable and affordable networks and services across the Department of the Navy.

AT&T ended its point-of-sale activation platform for the sale of prepaid phone cards at all NEX locations worldwide. However, it made virtual PINs available to reload minutes. AT&T Ocean cards will continue to be sold in ships stores aboard select U.S. Navy ships until the end of 2020.

NEXCOM's Djibouti telecommunications vendor developed an online application for Internet users at Camp Lemonnier so that users can check account activity, balance or time remaining on account as well as broadcast maintenance and outages.

Sapphire International mobile hot spot was launched to allow end users to safely and securely connect up to five wireless devices to any cellular network around the globe via 4G LTE without having to purchase local SIM cards and phone numbers.

Installed 16 new Mobile Center kiosks and relocated two existing Mobile Center kiosks within NEX locations worldwide.

Defense Information Systems Agency (DISA) amended the Memorandum of Agreement allowing NEXCOM to leverage excess capacity on the Naval Station Guantanamo Bay, Cuba, submarine fiber optic cable systems for quality of life purposes.

Gained approval from Commander, Navy Region Japan to include non-military business use Wi-Fi in Japan. 

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

A new khaki and white, slacks and skirt, uniform for female Chief Petty Officers and officers was launched in five locations and on myNavyExchange.com. Labeled as "New Fit," the slacks and skirt have several new features including straight lines, a dropped waist, a reduced zipper profile and removal of pleating that led to heavy bunching. The design of both the skirt and the slack had not changed since 1987.

Navy Uniforms were integrated on myNavyExchange.com enabling customers to use the website for cross-product purchases.

Enhanced a very successful partnership with NROTC / NJROTC Programs by supporting 6,000 midshipmen at 77 universities and over 82,000 cadets at 624 high schools. Subsequent sales were \$8 million.

Supported the ROTC New Student Indoctrination program in Great Lakes, Ill., by outfitting 847 candidates with uniforms and accessories generating uniform sales of \$1.5 million.

Supported the annual Sailor of the Year events in Washington, D.C. NEXCOM Uniform Program Management Office associates along with the NEX Arlington, Va., Uniform Shop, presented each of the four Sailors with custom fit Chief Petty Officer uniforms.

NEX Uniform Shops provided support to over 5,400 Chief Petty Officer (CPO) selectees around the world by fitting them in their first Navy khaki and other CPO uniforms.

The final Supply Request Package was submitted to Defense Logistics Agency (DLA) regarding two new civilian medals, the Civilian Service Achievement Medal and the Civilian Service Commendation Medal.

Re-established and hosted the Navy Protective Clothing Board (NPCB) to foster collaboration, communication and information sharing on Navy protective clothing requirements and solutions. Participants included representatives for Chief of Naval Operations, U.S. Fleet Forces Command, Type Commanders, the Navy's System Commands and Cross Service representatives.

In collaboration with AAFES and MCCA, developed and disseminated a 'Sales Limitation for Navy Uniform Items' matrix to support expanded military exchange patronage that was mandated by the FY19 National Defense Authorization Act (NDAA). The end-state of the matrix provided NEX Uniform Shops a quick reference guide for assisting associates and patrons in determining authorized and appropriate uniform purchases.

Submitted the Supply Request Package for the Surface Warfare Officer (SWO) jacket to DLA.

Rolled out the Congressionally mandated Berry Amendment compliant athletic footwear to Recruit Training Center Great Lakes, Ill., and Officer Candidate School in Newport, R. I. 



I-Boot 5 Wear Test



Women's "New Fit" Uniform

The Navy Clothing and Textile Research Facility



MISSION

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

ACCOMPLISHMENTS

Continued to support U. S. Fleet Forces Command with the Phase II assessment of the Navy Two Piece Flame Resistant Shipboard (N2PFRS) uniform. A single design configuration and two solid colors were evaluated during a 90-day wear evaluation: khaki for E7 and above and dark blue for E6 and below. The fabric evaluated was inherently Flame Resistant (FR) and the design was a unisex 2-piece configuration derived from the NWU Type III with incorporated updates. Male and female Officers and Enlisted participated in the evaluation. The N2PFRS was worn with a newly designed insignia configuration, shirt, black or khaki rigger's belt, black fleece, blue or khaki ball cap and safety boots. Based on feedback and analysis, NCTRF will provide data on the evaluation of the N2PFRS uniform as an alternative utility uniform to the Improved Flame Resistant Variant (IFRV) coveralls which will provide Sailors with enhanced capabilities during their Navy operations.

Executed wear test of I-Boot 5 to assess the Foreign Object and Debris performance of two new outsole designs. A team consisting of members from Chief of Naval Operations (OPNAV), Uniform Matters Office, NEXCOM and Naval Air Systems Command (NAVAIR) issued 120 I-Boot-5 boots to Sailors onboard the USS George Washington (CVN 73) and Helicopter Sea Combat Squadron TWO (HSC-2). OPNAV will receive the final report and make a final decision in late 2020.



Utilizing anthropometric data derived from the FY15 Size Correlation Study, NCTRF continues to work on the standardization of Navy uniform fit and sizing by working efforts to establish regular stature block patterns and moving forward with developing petite and tall stature block patterns for the female service uniforms. A Size Standardization Industry Day was hosted to provide an overview of efforts and methodology for standardization of U.S. Navy uniforms with participants from sister services and industry all discussing methods to improve and standardize the fit of U. S. military service uniforms. A female size standardization fit clinic with approximately 40 participants was held at NEX Little Creek, Va. The 3-day clinic evaluated and validated the block patterns for regular stature; participants tried on skirt, slacks, tuck in blouse, service overblouse and service dress blue overblouse to assess the fit of the base size system.

Commander, Naval Surface Force Pacific (COMNAVSURFPAC) requested the development of a unique leather jacket for Surface Warfare Officers (SWO) as an Organizational Clothing item. The development consisted of a Phase I with 13 participants wearing rapid prototypes of proposed design; Phase II, which started in late 2019, consisted of 27 participants validating design changes collected from Phase I. A Fit Clinic was also conducted with 86 SWOs in late 2019 at Surface Warfare Officer School (SWOS) in Newport, R. I., to validate size tariff and size prediction of the jacket. A final design decision will be made in fiscal year 2020 at which time a technical data package will be prepared.

The Service White maternity shirt was redesigned to mirror the Service Khaki maternity blouse. Changes included modification of the patterns, updating the technical document and working with industry to produce samples that were certified.

Naval Surface Warfare Center Division, Panama City, Fla., requested a standardized shipboard duffle bag that could be procured with a government contract. NCTRF reviewed current commercial samples of the bag and technically assessed each component material and completed lab testing to determine requirements. Improvements were made to include removing unnecessary parts and changing the style of zipper for durability. Technical drawing and a purchase description was completed for procurement actions. Further development of the duffle bag will continue in 2020.

Managed 211 uniform items and 20 fabrics as well as over 3,000 insignia items, through the Navy Uniform Certification Program which ensures that uniform items sold via NEX Uniform Shops meet or exceed Navy quality requirements. In addition, performed seven quality inspections and evaluated 648 insignia items and 12,033 swatches of material representing a total of 1,870,761 yards of fabric with 97.3% approved. 

Navy Exchange Service Command

MISSION

The mission of the NEXCOM is to provide quality goods and services at a savings and to support Navy quality of life programs.

ACCOMPLISHMENTS

Based on changes to the Wounded Warriors Federal Leave Act of 2015, NEXCOM created a Disabled Veterans Leave policy for its associates. The NEXCOM leave policy provides any associate, who is a veteran with a qualifying service-connected disability rating of 30% or more, with Disabled Veteran Leave during their first year of employment. The leave granted to NEXCOM's disabled veterans is five percent of the associate's estimated work hours within a 12-month period.

On Jan. 31, the military resale community signed a memorandum of understanding to establish a Joint Buying Alliance that is expected to provide even greater savings for authorized exchange and commissary shoppers. The agreement provides guidelines for a purchasing alliance involving retail merchandise and any other items sold by two or more of the organizations. As part of the Joint Buying Alliance, NEXCOM's Merchandising Department hosted a private brand meeting with the Army & Air Force Exchange Service (AAFES), Marine Corps Community Services (MCCS) and the Coast Guard Exchange (CGX).

NEXCOM's Customer Experience team traveled to Defense Commissary Agency (DeCA) headquarters to share tools and insights regarding the Foresee Customer Insights program.

The Enterprise achieved an overall shrink rate of 0.24% as a percent of sales while distribution centers posted a shrink rate of .0983% of total issues. According to the 2019 National Retail Security Survey by the National Retail Federation, the national shrink average of 1.38%.





Pay Away the Layaway, Inc., paid off \$27,277 worth of layaway balances for 154 military families in seven locations around the world. In addition, Good Morning America broadcasted live at NEX Norfolk Va., on Dec. 18 to surprise 62 of those military families with the news their layaways had been paid.

Since 2012, NEXCOM has been named one of the top 50 companies that provide the best career opportunities for Latinas in the U.S. by *LATINAStyle* Magazine.

NEXCOM's Western Pacific District was officially established on July 1. The Western Pacific District merges NEXCOM's Guam and Japan Districts to provide better support to customers and Navy leadership in the Pacific theater. Headquartered in Yokosuka, Japan, the Western Pacific District is comprised of NEX locations and operations at Fleet Activities Yokosuka, Japan; NEX Negishi Heights, Japan; Naval Air Facility Atsugi, Japan; NEX Sanno Hotel, Japan; Fleet Activities Sasebo, Japan; NEX Hario, Japan; NEX Singapore; NEX Hong Kong; Naval Station Guam; Naval Communications and Telecommunications Station Guam; and Naval Hospital Guam.

For the first time ever, NEXCOM participated in New York City Fleet Week. NEXCOM partnered with MWR and NEX Oceana and Norfolk, Va., to develop Fleet Week merchandise including Navy Pride items. NEX New London, Conn., associates provided all the merchandising, operational, visual merchandising for the five day event. Temporary NEX stores were opened on both the Manhattan and Staten Island Piers.

NEX Great Lakes, Ill., Distribution Center implemented a new process to better support Navy recruits. Previously, new recruits were required to box their belongings and ship them home via FEDEX. The new process has the NEX store the boxes for a nominal charge and return it to the recruits one day prior to graduation. The benefits for Sailors are there are no shipping costs and they get their personal belongings back quicker.



NEX Guam Customer Appreciation Weekend



NEXtgen Scholars Program



New York City Fleet Week

NEXCOM's Distribution Centers installed automated lines into the NEDC and WCDC locations to support expansion of the new truck floor loading initiative; nine stores were added, bringing the total NEXCOM count to 14. The floor loading initiative allows trailers to hold significantly more product, reduces delivery frequency by 40% and drives dramatic savings in transportation expense and processing efficiency within Store and Distribution Center operations.

The NEX A-OK Student Reward Program was revamped and renamed the NEXtgen Scholars Program. All qualified students still have the opportunity to win \$2,500, \$1,500, \$1,000 or \$500 each quarter for good grades. Along with the monetary award, each winner will receive a certificate and medallion with ribbon displaying "In Honor of Academic Excellence." Since program launch in 1997, a total of \$589,000 in savings

bonds and \$171,500 in monetary awards have been awarded to qualifying students.

NEXCOM teamed up with the Naval Air Station Pensacola, Fla., NEX, MWR and commissary for its first-ever Welcome Aboard Weekend April 26 – 27. Several thousand active duty military members participated in a 5K run, a Burger Bash and attended concerts and other events.

The second Welcome Aboard weekend, a joint event with USAF Force Support Squadron and DeCA, was held at Joint Base Charleston / Naval Weapons Station Charleston, S.C., Nov. 2 – 3. Events includes video gaming competitions, a class and show by magician, Ben Zabin; lunch for over 300 Sailors and Karaoke backed by a 3-piece band and country recording artist and Navy veteran, Jared Ashley.

Two Customer Appreciation Weekends were held in Sept, NEX Pearl Harbor Sept. 13 – 15 and NEX Guam Sept. 20 – 22. The NEXCOM team coordinated guest appearances at both locations including a car show with an appearance by Naval Reservist Lt. Cmdr., and NASCAR driver, Jesse Iwuji; Sideswipe Martial Arts Performance Team; magician Ben Zabin; a Bubba Burger eating competition featuring the America's Top Eater team; Navy Veteran, Jared Ashley; and country music artist, Chase Bryant. The weekend also featured many local events. 🇺🇸

NEXCOM Fiscal Year 2019 Financial Review



Sales performance continues to be challenging in a competitive retail environment with overall sales coming in at \$2.3 billion, a decrease of 4.7% from last year. Retail sales were lower than last year by 4.8%, services revenue was flat compared to last year and gas sales were lower by 5.7%. Despite the

overall sales shortfall, strong expense controls across the enterprise mitigated reduced margin dollars and resulted in an Operating Profit of \$13.4 million. Net Loss for FY19 was \$20.6 million, compared to a Net Profit of \$13.1 million in FY18, and was impacted by a significant retirement expense. The retirement expense of \$34.0 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.

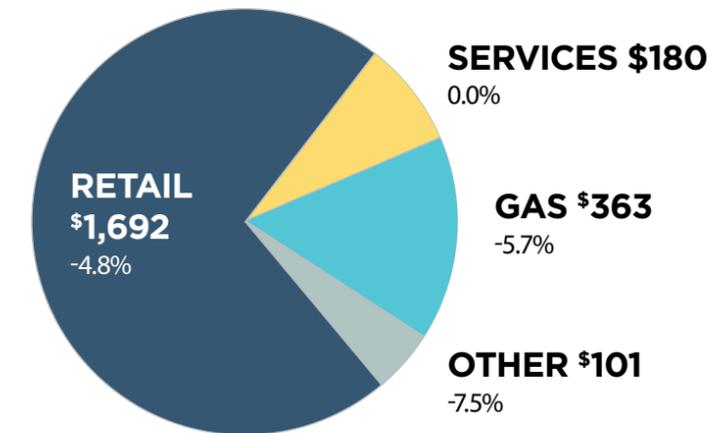
The biggest component of the total enterprise performance was the retail segment which accounted for 72% of total sales. Profit generated from the retail segment decreased by 12.5% from last year largely due to lower sales and gross profit and higher e-commerce shipping expense. The gross margin rate for FY19 was 24.13% versus 25.24% in FY18.

Sales from the services segment were flat compared to the prior year. Sales increased in local foods/gifts, rental services and in the vending program, which continued to expand its Micro Market concept. Gasoline sales decreased 5.7% from the prior year, although the average price per gallon remained almost unchanged (\$3.06 in FY19 compared to \$3.05 in FY18). Government-issued military uniform sales decreased 19.5% compared to last year due to completion of the rollout of the Navy Working Uniform Type III. Cooperative efforts sales ("other income") increased 3.0%.

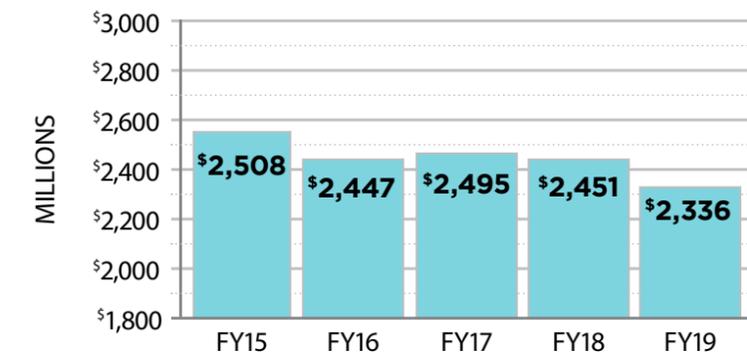
NEXCOM continues to provide savings in the form of a non-pay benefit as well as a cash dividend to the Navy's Morale, Welfare and Recreation (MWR) funds. In 2018, a modification was made to the existing MWR/NEX profit dividend split, effective for FY18 through FY20, which provides a guaranteed dividend of 70% of NEX net profit, or \$33 million, whichever is greater. Based on this modification, dividends declared for FY19, including dividends paid to MWR under separate local agreements for vending and food service, totaled \$35.2 million. From this amount, a total of \$21.8 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. Cash flow from operations was \$90.9 million this year compared to \$93.9 million last year. NEXCOM's store modernization program continues to be funded from operating cash flow. During FY19, \$47.8 million was spent on capital expenditures.

Sales by Segment (Millions) And Change From Prior Year



Total NEX Sales



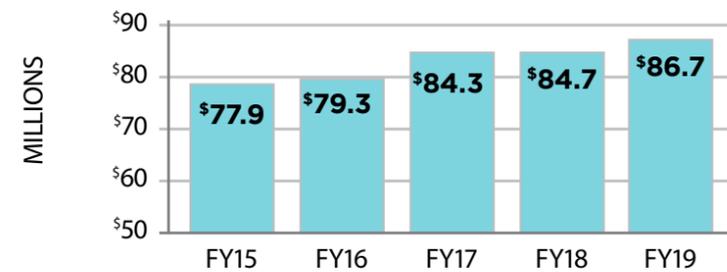


The Navy Lodge Program operates 39 Navy Lodges worldwide. The overall occupancy for 2019 decreased slightly to 86.7% compared to the record high rate of 87.1% in the prior year. The average room rate increased to \$86.55 in FY19 compared to the average rate of \$84.22 in FY18.

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 FY19 was \$13.6 million compared to \$12.2 million in FY18.

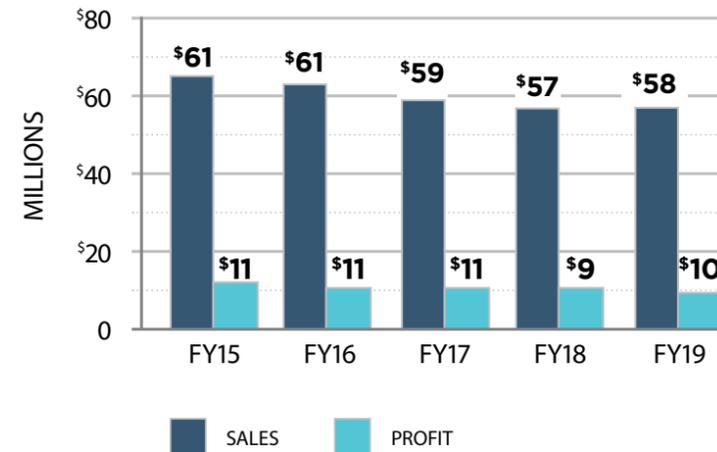
Navy Lodge Program continues to be superior in guest service and very effective leveraging of operating and maintenance costs.

Navy Lodge Operating Revenues



Ships stores operated aboard 133 commissioned Navy ships. The program generated \$58.4 million in total sales and \$9.7 million in net profit for FY19. 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 FY19, ships stores generated profits of \$8.3 million for their use and \$1.1 million for CNIC to use in support of Fleet ships without a ships store, such as submarines.

Ships Stores Sales and Profits





FOR THE FISCAL YEARS ENDED
 FEBRUARY 1, 2020 FEBRUARY 2, 2019
 IN THOUSANDS OF DOLLARS

INCOME STATEMENT	» Total Sales	\$2,336,205	\$2,451,101
	» Income from Concessions - Net	\$42,361	\$42,272
	» Contributed Services Revenue	\$74,768	\$76,389
	» Other Revenue	\$3,069	\$5,355
	TOTAL REVENUES	\$2,456,403	\$2,575,117
	» Cost of Sales	\$1,818,266	\$1,896,263
	» Selling, General and Administrative Expenses	\$576,638	\$579,969*
	» Contributed Services Expense	\$74,768	\$76,389
	» Other Income - Net	\$26,707	\$25,981*
	» Operating Income	\$13,438	\$48,477
» Retirement Expenses	\$34,001	\$35,349	
NET INCOME (LOSS)	(\$20,563)	\$13,128	
PROFIT DISTRIBUTION	» Dividends Declared	\$35,159	\$35,064
ASSETS	» Cash & Accounts Receivable	\$401,194	\$400,741
	» Merchandise Inventories & Other Current Assets	\$447,482	\$478,641
	» Property/Equipment & Other Long-Term Assets	\$634,715	\$612,622
	TOTAL ASSETS	\$1,483,391	\$1,492,004
LIABILITIES AND NET ASSETS	» Trade Accounts Payable & Accrued Liabilities	\$231,563	\$239,568
	» Other Current Liabilities	\$268,045	\$236,617
	» Long-Term Liabilities	\$537,123	\$406,721
	» Net Assets	\$446,660	\$609,098
	TOTAL LIABILITIES & NET ASSETS	\$1,483,391	\$1,492,004

*FY18 amounts revised due to reclassifications required for newly adopted accounting standard ASU 2017-07; No net profit impact.



FOR THE FISCAL YEARS ENDED
 FEBRUARY 1, 2020 FEBRUARY 2, 2019
 IN THOUSANDS OF DOLLARS

INCOME STATEMENT	» Operating Revenue	\$86,666	\$84,748
	» Contributed Services	\$3,497	\$4,701
	TOTAL REVENUES	\$90,163	\$89,449
	» General and Administrative Expenses	\$79,127	\$78,728
	» Operating Income	\$11,036	\$10,721
	» Other Income - Net	\$2,655	\$1,429
	NET INCOME	\$13,691	\$12,150
ASSETS	» Cash and Other Current Assets	\$218,974	\$194,898
	» Property and Equipment - Net	\$113,016	\$122,630
	TOTAL ASSETS	\$331,990	\$317,528
LIABILITIES AND NET ASSETS	» Accounts Payable	\$4,399	\$3,628
	» Net Assets	\$327,591	\$313,900
	TOTAL LIABILITIES & NET ASSETS	\$331,990	\$317,528



		FOR THE FISCAL YEARS ENDED	
		SEPTEMBER 30, 2019	SEPTEMBER 30, 2018
	» Ships Stores Sales	\$53,383	\$51,882
	» Vending Sales	\$4,983	\$5,060
TOTAL SALES		\$58,366	\$56,942
NET PROFIT FROM OPERATIONS		\$9,714	\$9,065
PROFIT DISTRIBUTION	» Assessment for CNIC	\$1,107	\$1,248
	» Equipment for Ships Stores/Other	\$355	\$710
	» Profits Retained for Morale, Welfare and Recreation	\$8,252	\$7,107