



# SPIRIT UPDATE

January 2018

# Company Timeline – Providing Context



# Recent Challenges & Path Forward

## Recent Challenges

## Path Forward

Shopko's FY2016 performance deteriorated due to three principle factors

Shopko has a three-pronged approach to deliver a stable, growing go-forward entity

1

Leadership voids created operational challenges in the Main Store and Pharmacy businesses



1

Corporate Reorganization / Hiring & Operational Improvement Initiatives

2

Aggressive new store growth into new territories in FY2015 and FY2016 pressured organizational capabilities



2

Store Rationalization Plan

3

Recent performance put pressure on liquidity making it difficult to evolve with the market and capitalize on growth opportunities



3

Compelling Growth Opportunities

Since Implementing The Go-Forward Plan, The Company Has Posted Improved Performance, Proving Its Viability & Long-Term Earnings Potential

# Operational Improvement Initiatives

## Overview

- Within the last 12 months, the Company has reorganized and strengthened its leadership team with a new Chief Executive Officer, Chief Merchandising Officer, Chief Customer Officer, SVP of Retail Health, adding an SVP of Strategic Analysis, and eliminating three senior level positions. Board of Directors was expanded to include two new independent Directors. Under this new team, Shopko is executing on multiple operational initiatives, as detailed below:

Initiative	Summary	Status
Main Store	<b>A Main Store Process Improvement</b> <ul style="list-style-type: none"> <li>In-store operating efficiency review that led to implementing standard operating procedures at all stores beginning in Q4 FY2016</li> <li>Standards applied to functional areas such as; front-end, freight, pricing, sales floor and planograms</li> <li>Realigned field leadership by geography rather than format, reducing headcount</li> </ul>	Completed
	<b>B Pricing Strategy</b> <ul style="list-style-type: none"> <li>Strategic approach to initial, promotional and clearance pricing that has resulted in expanded margins</li> <li>Expanded pricing tiers, supported by a one time investment in a pricing software solution to optimize the Company's everyday pricing strategy</li> <li>Focus on ROI generating Promotion and Marketing activities</li> </ul>	In Process
	<b>C Inventory Management</b> <ul style="list-style-type: none"> <li>Implemented guidelines and strategies that have improved in season sell-thru</li> <li>Optimized inventory levels have reduced the levels of clearance merchandise and improved gross margin</li> <li>Disciplined management of seasonal inventory buys and end of season markdown cadence</li> </ul>	In Process
	<b>D Shrink Rate Improvement</b> <ul style="list-style-type: none"> <li>Reduce general merchandise shrink through improved store processes</li> </ul>	In Process
Pharmacy	<b>E Pharmacy Labor Model Improvement</b> <ul style="list-style-type: none"> <li>Refined pharmacy staffing levels to better align with their individual demand profiles</li> <li>Implemented a tracking system that enables the Company to capture benefits of other labor efficiency initiatives</li> </ul>	Completed
	<b>F WI Pharmacy Operations Reset</b> <ul style="list-style-type: none"> <li>Refine operations within pharmacies by: (i) standardizing and optimizing its operating software, (ii) analyzing location variations, and (iii) reallocating labor across locations to maximize productivity</li> </ul>	In Process
	<b>G Distributor Contract Revision</b> <ul style="list-style-type: none"> <li>Amendment with core pharmaceutical distributor that revised pricing through December 2021</li> <li>Branded purchase discounts and an improvement in pricing for the preferred generic program</li> </ul>	Completed
	<b>H Expanded 340B Program</b> <ul style="list-style-type: none"> <li>Additional provider program to generate incremental pharmacy income through new covered entities</li> </ul>	Completed
	<b>I PBM Contracts &amp; Profitability</b> <ul style="list-style-type: none"> <li>Negotiate PBM contracting / agreements to improve profit margins</li> <li>Developing a plan for SKU rationalization and managing the sale of prescriptions to improve margins</li> </ul>	In Process

# Compelling Growth Opportunities

## Overview

SHOPKO®

### Private Brand Opportunity

- Currently private brand products account for ~15% of sales vs. ~25% - 50% for competitors
- Implemented a plan to increase private brand volume and penetration through FY2020 to 30% of merchandise sales



### Improved Store Experience

- Opportunity to improve in-store experience with updated navigational and perimeter signing
- Focused Brand signing can improve customer understanding of the breadth of offering available
- The Company is evaluating other initiatives that will enhance the customer experience in our stores
- By optimizing the product offerings, based upon regional preferences, the Company is able to drive higher sales at better margins



### Enhanced Marketing Effort

- 5.7mm Customers are enrolled in Shopko loyalty programs, with the ability to increase lifetime value by optimizing the use of existing data
- More targeted and customer-specific marketing initiatives to reactivate inactive customers, but also drive incremental spending of active customers
- Adjusting the media mix to drive new customer engagement, developing customer-specific coupons, and creating Pharmacy and Optical specific efforts



### Optical Business Expansion

- Optical business is generating consistent growth and superior margins, and can be further scaled across the store base
- Leverage excess capacity at the Company's optical lab through new optical centers (Hometown or free-standing locations), the addition of second exam lanes at existing, high-volume optical centers, or as a third party supplier.



# Compelling Growth Opportunities

## Overview (Cont.)

SHOPKO®

### Real Estate Optimization

- Focus on renegotiating rent cost in line with current market levels
- Re-evaluating the square footage requirements of its Big Box format in order to improve productivity and reduce rental expense



### Refined Hometown Concept Focus

- Large whitespace opportunity of ~150 - 200 locations within the current footprint.
- Return to FY2013 / FY2014 site identification process to open up to five new Hometown stores per year beginning late FY2019



### SG&A Reduction Opportunity

- Implement cost savings identified by AlixPartners to improve FY2018 EBITDA
- Significant SG&A saving opportunities that could be realized across three primary focus areas: (i) corporate headcount, (ii) indirect spending, and (iii) advertising strategy



### Private Label and National Brand Purchasing

- Improved liquidity position provides opportunity to renegotiate merchandise costs
- Use data analytics to optimize the placement of product offerings and improve product profitability

