

**DRAFT**

**New World Operational Readiness Briefing**

**December 20, 2016**

**Confidential Draft**

## THE ENGAGEMENT

XXXXX XXXXXXXXXXXX XXXXX ("XXXXX") was retained by XXXXXXXXXXXXXXXXXXXX ("Client") to provide certain financial advisory services as set forth in the engagement letter dated April 5, 2016 which was amended on July 18, 2016.

The procedures performed and information obtained was for the purpose of completing this report. Such procedures do not constitute either a business or financial audit. Had a complete business or financial audit been performed (including, but not limited to such procedures as extensive independent verification of information provided by Company Management), additional information and disclosures might have come to our attention that could impact the findings in this report.

This report was prepared based on the data and information provided to XXXXX during an on-site meeting on December 13, 2016.

XXXXX is a management consulting firm and not a CPA firm. XXXXX does not provide attest services, audits, or other engagements in accordance with standards established by the AICPA or auditing standards promulgated by the Public Company Accounting Oversight Board ("PCAOB"). We will not audit any financial statements or perform attest procedures with respect to information in conjunction with this engagement. Our services are not designed, nor should they be relied upon, to identify weaknesses in internal controls, financial statement errors, irregularities, illegal acts or disclosure deficiencies.

## **EXECUTIVE SUMMARY**

Based upon our discussions and observations, The New World Project (see defined terms below) appears to be within budget, but slightly behind timeline due to permitting constraints. Overall, operations seem to be well under control.

IT initiatives are ahead-of-schedule:

- All aspects of the project are tested and working independently
- Processes are being documented as SOPs are developed

Inventory integrity appears to be solid:

- Complete physical inventory occurred in August 2016, resolving two years of cumulative errors
- Subsequent audits showed less than 1/2% variance between perpetual records and physical inventory
- Lost and Found (a measure of inventory inaccuracies) transactions are nearly zero

New World is well positioned to manage the seasonal peak demand based on anticipated volume and expected characteristics of that volume depending upon the following risks:

- New World construction remains on schedule
- Material receipts are received when planned
- Staffing and training remain diligently managed
- VAS volume and requirements are carefully managed to ensure they do not consume excessive resources
- Density and mix of products picked and shipped (GOH and Case Flow) remain consistent with plan
- Contingency planning remains active and executed when necessary

## **BACKGROUND**

During November 2014, Client launched a new warehouse management system only to quickly determine that the system was not configured correctly and was immediately shut down. New warehouse leadership was engaged to address the new system during the May – October 2015 off season.

While the new system performance was encouraging during the lower volume off season period, in January 2016 it was determined that the warehouse configuration and carton methodology would not support peak seasonal unit throughput. In order to fill customer demand, a hybrid automated and manual pick work around system was employed through the

2016 peak shipping season resulting in delayed shipments, inefficiencies, and higher required labor.

In April 2016, XXXXX was engaged to evaluate the current warehouse management system, recommend changes in warehouse layout, and other configurations to assist the Company in improving the overall warehouse operations in order to effectively and efficiently service customer needs.

#### BRIEFING OBJECTIVES AND SCOPE

The scope of this report is to review New World's status and specifically its readiness for the seasonal demands including:

- Operational capability to meet the expected demand
- Construction status and plans
- Capacity management and readiness
- Warehouse labor productivity
- Staffing
- Training plans
- Determining if there are outstanding IT interfaces or enhancements that have not been completed

#### GLOSSARY OF TERMS USED THROUGHOUT THIS REPORT

ACS – Access Client Solutions – refers to Client's ERP system, which runs on the IBM AS/400 system.

AVG Pick/MH – average number of units picked per man hour.

Bulk vs. P&P – Bulk versus Pick and Pack – the percentage that case flow (e.g. bulk) units represents of total anticipated units (e.g. case flow, lower and upper unit demand).

CF – Case Flow –this is the area of the warehouse which is configured for high velocity, high volume picking and performed with limited resources.

Days – is the number of business days for a given month.

Density – is a measure used for GOH, and represents the quantity of product that a picker retrieves at a given GOH location (e.g. at a given RF location).

- A density of 5 versus a density of 2.5 implies that a picker can be twice as productive in fulfilling an order, since the picker can retrieve double the quantity of product at a given location

Division – the location of the various Client brands in the warehouse.

GOH – Garment on hanger. GOH is a system to store, pick, and ship hanging garments, and the GOH design is configured in either a multi-level or single level operation.

Flex and static – this is a model developed in the warehouse to efficiently pick and store garments. Every active season SKU is represented in a GOH location, and in general, the ratio of the number of garments between static and flex is 2 to 1 (e.g. more units in static). The flex and static locations are managed such that for a given pick, a picker goes to a given flex location first, and if additional pieces are required, the picker goes to a static location for the remainder of the order. A replenishment cycle is then enabled whereby, the flex location is replenished from the static location, and the static location is replenished from a bulk storage location.

HC – Headcount.

Lower or Upper Pick Demand (for GOH) – is the anticipated units for a given month divided by the density.

New World – the internal term used to define the revised warehouse operating system and procedures.

PH – PowerHouse – the name of the WMS that Client has implemented.

Pick face – a pick-face is the space for either a racking system where a pallet or case can be loaded or for GOH, it is the space that is immediately accessible to the order picker. A pick face can be thought of as the front (face) of the storage. If you measure a pick face, the measurement would contain width and height, but not depth.

P&P – Pick and Pack – is a part of a complete supply chain management process that is commonly used in the retail distribution of goods. It entails processing small to large quantities of product (often truck or train loads) and disassembling them, picking the relevant product for each destination, and re-packaging with shipping label affixed and other required documentation included.

POP – Within Client, each pick trip corresponds to one POP, and each POP represents the picks made in one division (that is, each pick trip goes into only one division, and one POP represents one trolley).

Required P&P Hours – required pick and pack hours – derived by dividing the Total Pick Demand by the Average Pick per Man Hour.

Required Pick HC – derived by dividing the Required P&P Hours by the Days and divided by the number of hours in a shift (e.g. 8 hours).

RF Picking – Radio Frequency (RF) picking is an extremely popular, widely used technology in distribution centers and warehouses that has outgrown the paper-based picking process. As the name implies, RF picking requires the establishment of a radio frequency wireless network, specifically 802.11b/g within the facility. The RF system has a host server that communicates directly with the higher level Warehouse Management System (WMS) in order to send and receive order information. The information is relayed to the RF terminals that warehouse operators and order pickers wear, typically on their wrists. These terminals direct the order picker to the proper pick location and provide item description and quantity to pick. Once complete, the order picker sends a confirmation signal to the host signal either by scanning the item with the terminal or manually pressing product identification buttons on the terminal. Once all lines in an order are complete, the order status in the WMS is updated by way of the host system and the next order in the queue is sent through the host.

S&OP – Sales and Operations Planning, is an integrated business management process through which the executive/leadership team continually achieves focus, alignment, and synchronization among all functions of the organization.

Takt – the available warehouse time divided by customer demand. Understanding Takt time assists warehouse managers manage daily operations, to know how long it takes to put away different types of merchandise received in a shipment, how many pieces must be put away in a day, how rapidly the pieces must be put away to get work done, and the required staffing levels.

Trolley – a bar that the picker uses to fulfill an order. The trolley rolls across an overheard rail system as the order is being fulfilled.

Upper Mix – the percentage that the Upper Pick Demand represents of the Total Pick Demand.

VAS – Value Added Services. VAS can be one operation, such as folding a garment, or a multiple step process (e.g. adding a merchandise tag, hanging the garment, etc.). The VAS operation is performed within specific areas of the warehouse.

WMS – Warehouse Management System.

## PROCEDURES TO BE PERFORMED

As captured in the 11/22/16 order book, monthly revenues are anticipated to grow from \$9.0M (2017 season referred to as “Season 7 plus liquidation of prior seasons”) in November ‘16 to approximately \$23.7 M in January ‘17.

The following procedures were performed to determine if the warehouse management systems have the ability to meet the high level of seasonal demand:

- Conducted facilities tours, reviewed the construction project status, and project plans implemented to support the seasonal demands and timing, including:
  - Review of the revisions to the project plan’s timetable
  - Recommend pertinent revisions and contingency plans to increase the probability of success
- Conducted one on one and group meetings with key members of the New World team to assess whether resources and the skills are in place to complete the New World project
- Assessed key members’ ability to achieve operational success though the upcoming high demand season. Key members include, but are not limited to:
  - New World Project Managers: Mike Anderson, Charles Cooper, Matt Bonn
  - IT team: XXXXXX XXXXXX, XXXXXX XXXXXX
  - Warehouse team: Warehouse managers, resource scheduling personnel
  - Client executives: XXXXXX XXXXXX, XXXXXX XXXXXX, XXXXXX XXXXXX

## KEY FINDINGS

During the on-site visit, the XXXXX team met with the following

Name	Position	Company
XXXXXX XXXXXX	CEO	Client
XXXXXX XXXXXX	CFO	Client
XXXXXX XXXXXX	COO	Client
XXXXXX XXXXXX	Interim Chief Information Officer	XXXXXX XXXXXX
Mike Anderson	DC Director	Title 2
Charles Cooper	New World Project Team	Title 2
Matt Bonn	New World Project Team	Title 2
XXXXXX XXXXXX	IT Director	Client

Our key findings are set are forth in the following sections:

- New World construction status and plan
- Capacity management - includes staffing and training plans
- Management’s readiness

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- Warehouse labor productivity
- Information technology

New World Construction Status and Plans (as of 12/13/16)

Area	Description	FY 17 Bank Plan Timing	Actual/ revised timing (as reported 10/14)	Actual/ revised timing (as of 12/13)	GOH capacity	Comments
G-14	New Floor Level	10/17/16	11/21/16	12/23/16	632,000	Delayed in favor of G-22, 23, and further delay due to new ceiling requirement. Accumulation area complete, GOH construction underway.
G-22, 23	Existing Upper Mezzanine	11/7/16	10/05/16	n/a	422,000	Completed. Pulled forward when the existing sprinkler/ceiling was approved.
G-12, 13	Existing Lower Level	11/21/16	10/31/16	n/a	132,000	Operational with portions of Ralph Lauren brand in place. In process of re-locating additional brands (e.g. RL and LR) into GOH as sprinklers are completed.
G-11	New Lower Level	12/19/16	12/19/16	1/13/17	291,000	GOH support structures being assembled
G-21	New Upper Mezzanine	1/2/17	1/2/17	1/20/17	360,000	GOH support structures being assembled
				Total	1,837,000	

Observations:

- Receiving and Quality Control (QC); shipping and hold; prepacks storage/process areas appear complete
- All reconfiguration areas are under construction, or management indicates have been completed
- Open and hang areas are not finished

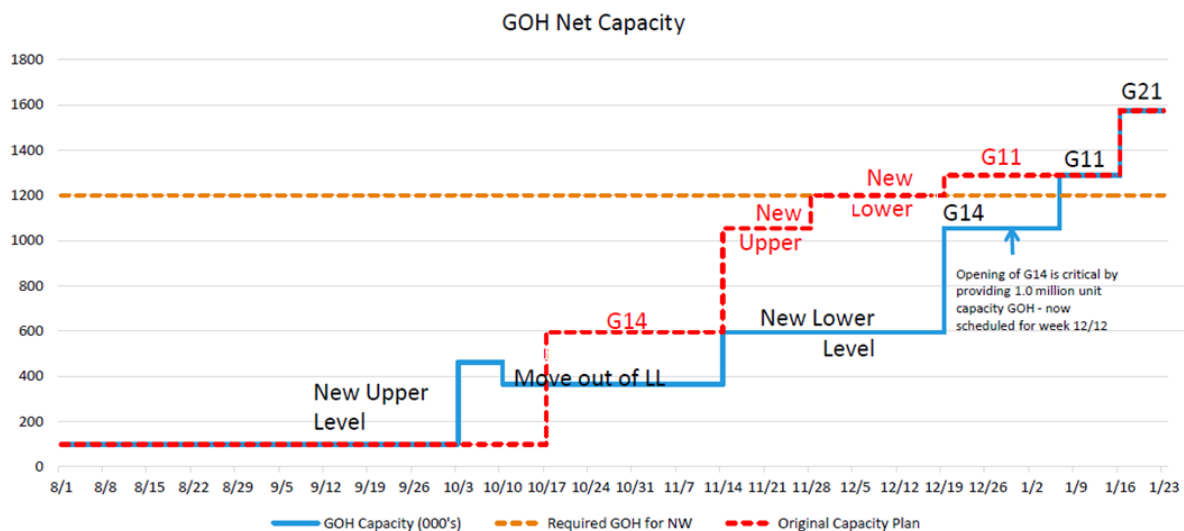


- Several impediments/opportunities were created by fire code (in addition to pushing out the project timeline by 2-3 weeks):
  - Fire code required installing a drop ceiling to bring overall ceiling height to under 30 feet
    - Changed order of work to bring upper mezzanine (G-22, 23) online first
    - Pushed area G-14 out until completion of ceiling and sprinkler work
  - In-rack sprinklers were required for area G-11
    - Installation of the mezzanine over area G-11, eliminated the need to build a deck to direct water flow
    - Mezzanine level was installed at a similar cost to a deck to meet a longer term target of additional capacity
- Change in storage type required modifications to in-rack sprinklers in the lower mezzanine
  - Pushed full opening of the lower mezzanine (G-12, G13) areas out several weeks
  - Permitted use of lower mezzanine (G-12, G13), but partial rotating areas cleared to do sprinkler work
  - Delays full flex/static setup until sprinklers are done (ETA 12/23)

The following charts illustrate the New World construction and capacity status, the lower and upper layouts, and the GOH location plan by division

## New World Update: Timeline

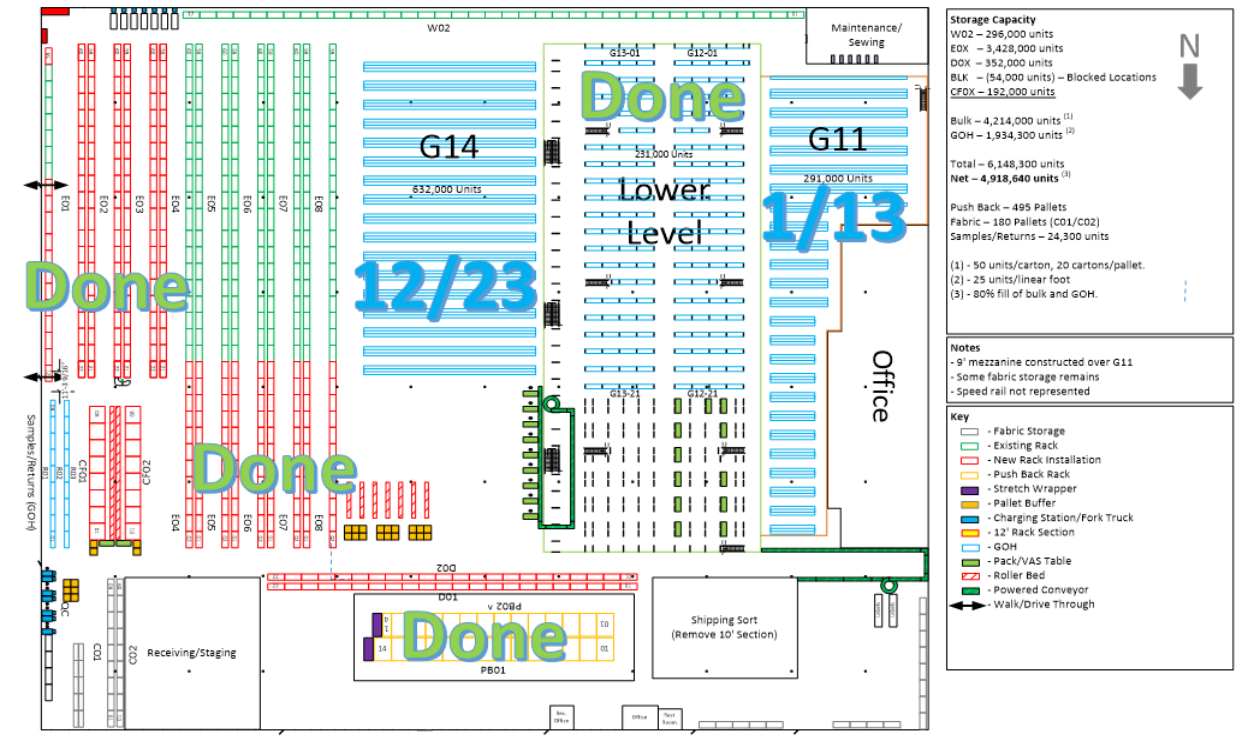
The project timing has moved out modestly driven by (i) permits, (ii) sprinklers and (iii) ceiling, but our key date now is to open G14 before Christmas so we are ready for seasonal upswing in January.



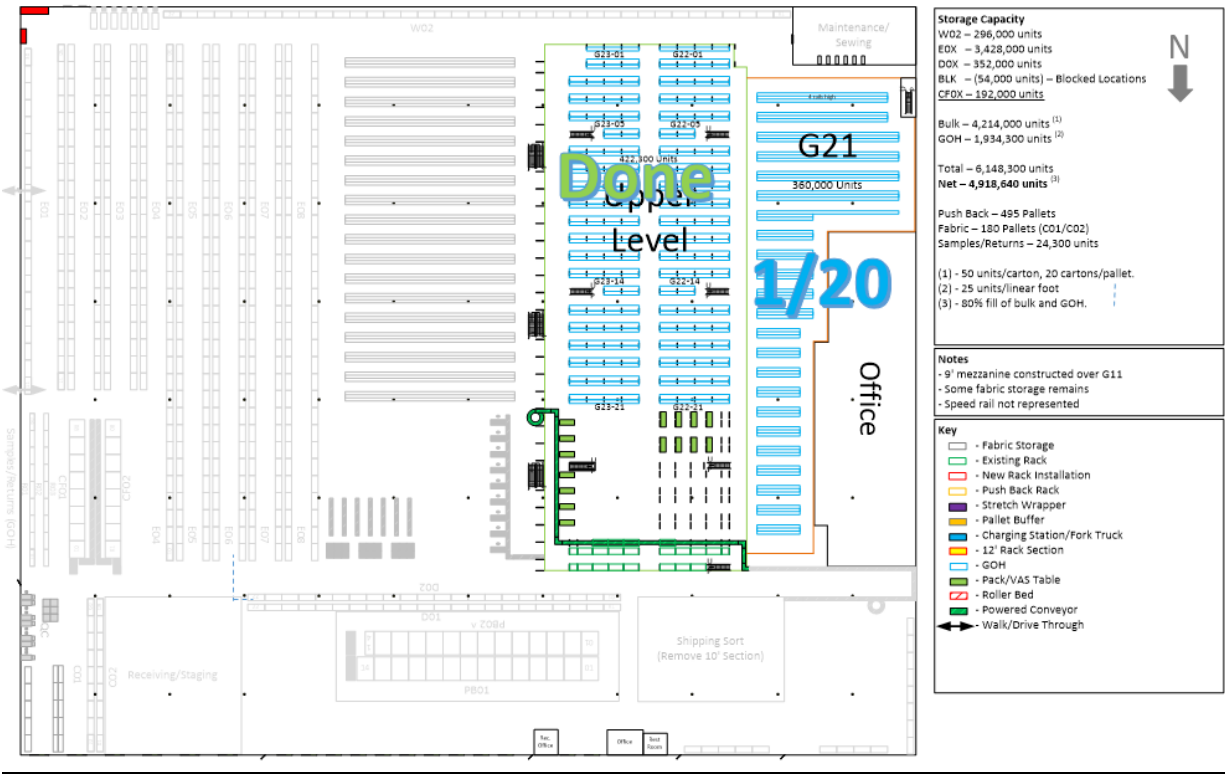
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The required GOH net capacity of 1.2 million units is derived from the flex and static model for the number of GOH “pick faces” required

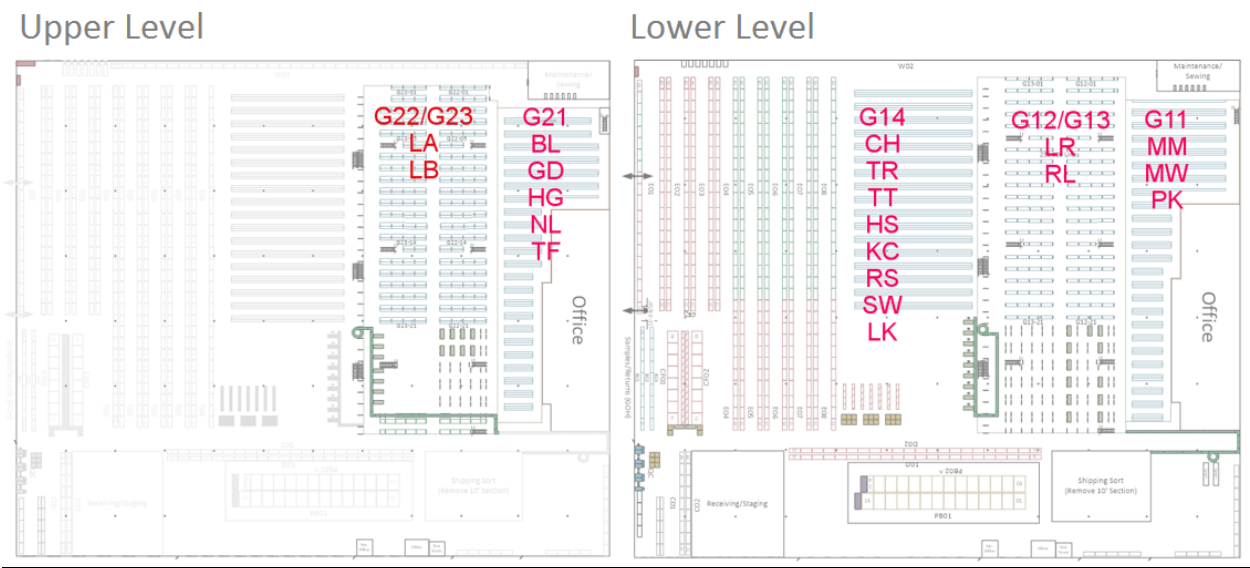
### Lower Level Layout



Upper Level Layout



GOH Locations Plan by Division



Capacity Management (including staff and training plans)

New World appears to have achieved several critical operating milestones:

- Operating in the Upper Mezzanine (G-22, 23) and Lower Level (G-12, 13) areas with pick, pack, and VAS
- Driving all activity with Radio Frequency (RF) directed work, excluding case flow (i.e. private label) and set matching
- VAS capacity has been maximized in a small footprint, reducing the negative impact on shipping
- Pickers are trained on RF picking techniques
  - Takt for prior manual pickers (new RF pickers) now approaching that of seasoned RF pickers
- Extended PowerHouse to pack and ship (originally planned for season 2018); seamlessly achieved and eliminated the interface between PH and ACS
- Flex and static replenishment coding is well underway - Division locations are said to be near completion
- New systems, processes, and personnel were put in place to track, resolve and cure compliance chargebacks
  - Formalized process has been implemented to review and share compliance chargebacks to mitigate future chargebacks
  - While it is still early in the season, Season 7 chargebacks to date have been minimal

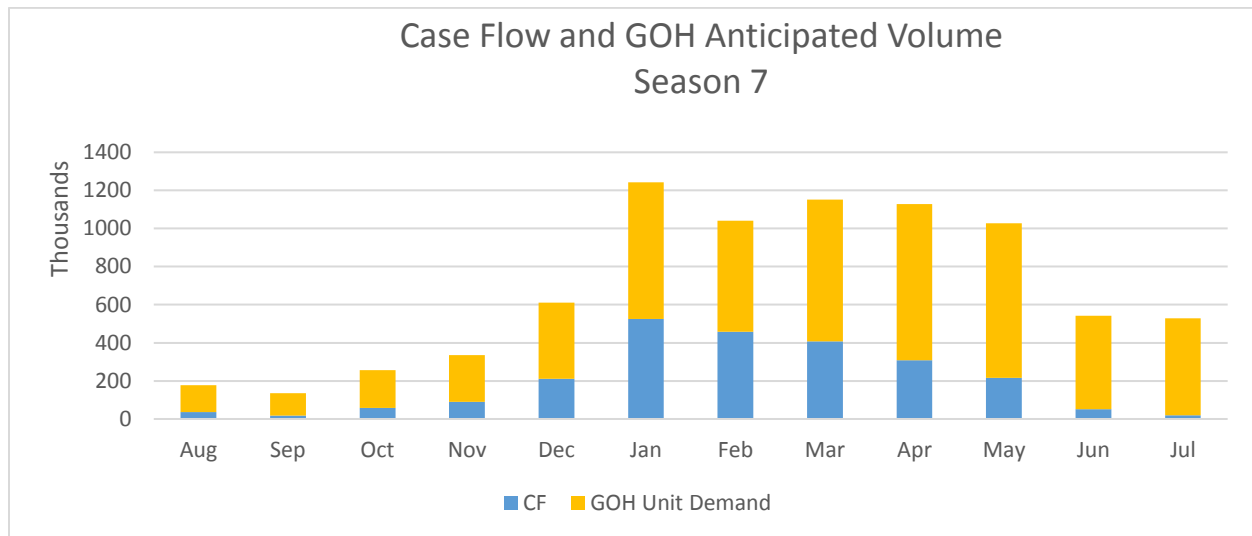
The demand for Season 7 consists of both bulk and GOH orders and are different work types

- Bulk orders (predominately private label) are placed and dated differently than GOH pick orders
- Capacity for replenishing and picking bulk orders is very different than GOH pick orders

A new case flow area is running Bulk type orders

- Bulk type orders are approximately fifty percent (50%) of the seasonal peak increase in volume
- Allows for high velocity, high volume picking with limited resources
- Depending on mix, the warehouse can process over 100k units per day
- Not intending to use RF in Season 7 for case flow order picking
- Eventual movement to configuration 1A for Season 8 will enable RF picking for case flow

The following table shows the actual demand (August '16 – November '16) and the demand anticipated (December '16 – July '17) for bulk and GOH orders (Season 7):



Based on data provided, the following table is an analysis of the case flow (CF) and GOH unit demand (as of 12/13/16):

Total Demand by Location	August	September	October	November	December	January	February	March	April	May	June	July
CF	36,222	17,590	58,611	89,865	210,755	525,367	458,421	408,088	307,717	215,439	50,748	19,079
CF unit growth (from previous month)		-51.4%	233.2%	53.3%	134.5%	149.3%	-12.7%	-11.0%	-24.6%	-30.0%	-76.4%	-62.4%
Lower	40,979	56,319	109,473	160,235	278,618	490,895	358,296	500,977	508,216	505,648	251,505	327,410
Upper	99,854	62,206	88,035	86,050	122,229	225,951	223,753	243,388	312,223	306,024	239,808	181,378
GOH Unit Demand	140,833	118,525	197,509	246,285	400,847	716,845	582,049	744,365	820,439	811,672	491,313	508,789
GOH unit growth (from previous month)		-15.8%	66.6%	24.7%	62.8%	78.8%	-18.8%	27.9%	10.2%	-1.1%	-39.5%	3.6%
Density	5.3	8.1	4.7	3.1	3.3	5.0	3.2	3.2	3.9	3.8	10.1	5.3
Lower Pick Demand	7,688	6,936	23,543	51,030	85,729	97,749	111,307	158,889	129,482	132,265	24,855	61,428
Upper Pick Demand	18,734	7,661	18,932	27,404	37,609	44,992	69,510	77,193	79,547	80,048	23,699	34,030
Total Pick Demand	26,423	14,597	42,475	78,435	123,338	142,741	180,817	236,082	209,029	212,313	48,553	95,458
% Pick Increase (from previous month)		-44.8%	191.0%	84.7%	57.2%	15.7%	26.7%	30.6%	-11.5%	1.6%	-77.1%	96.6%
Avg Pick/MH	35	37	38	38	42	45	45	45	45	45	45	45
Required P&P Hours					2,937	3,172	4,018	5,246	4,645	4,718	1,079	2,121
Days					22	23	24	25	26	27	28	29
Required Pick HC					15.5	17.2	20.9	26.2	22.3	21.8	4.8	9.1
Upper Mix	71%	52%	45%	35%	30%	32%	38%	33%	38%	38%	49%	36%
Bulk vs P&P	20%	13%	23%	27%	34%	42%	44%	35%	27%	21%	9%	4%

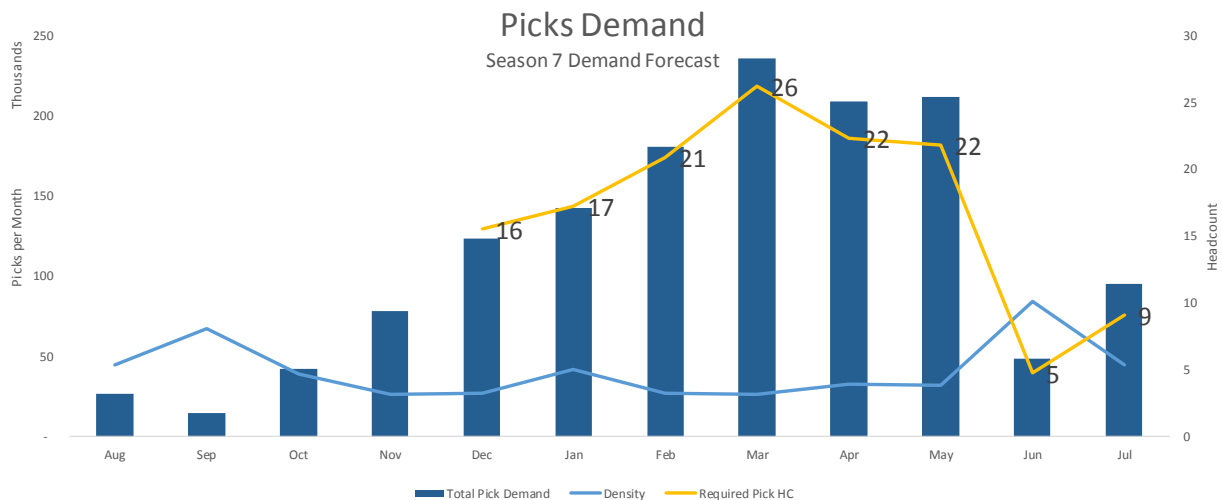
#### KEY OBSERVATIONS

- The table above assumes only the lower level (e.g. G-12, 13), the upper mezzanine (e.g. G-22, 23) areas, and the picking locations will be re-allocated upon opening additional GOH locations, e.g. G-14, G-11, and G-21

- The 11/22/16 order book anticipates increasing monthly revenues from approximately \$11.5 M (December '16) to approximately \$23.7 M (January '17)
  - The expected unit growth in case flow in January '17 (approximately 149.3%) is much greater than the anticipated unit growth for lower and upper GOH in January '17 (growth of approximately 78.8%)
  - Given that cases have a higher unit count per container (e.g. density of approximately 40) and a dedicated area in the warehouse, case flow shipments are more efficient to fulfill
- The anticipated density of the GOH locations increases from 3.3 in December '16 to 5.0 in January '17
  - This increase in density, from November and December '16 to January '17 is based on Season 6 results and the knowledge that customers tend to buy in smaller quantities earlier in the Season 7 “cruise season” and order larger quantities in January '17
  - However, the GOH densities are anticipated to decrease from February '17 to May '17 as customers “sample” the product lines, and are expected to buy larger quantities of product (e.g. higher density) in June '17
- For January '17, the anticipated increase in density has a “multiplier effect”, e.g. the pickers can be more efficient in picking a higher quantity of product at a given pick location. As captured in the table above, the increase in the total pick demand (for GOH) is approximately 15.7% (December '16 to January '17)
- The warehouse team needs to carefully manage total pick demand starting in February '17 as the total pick demand and the number of required pickers increases
  - The total pick demand increases approximately 26.7% from January '17 to February '17 and increases an additional 30.6% from February '17 to March '17
  - The additional GOH locations, e.g. G-14, G-11, and G-21, will help as the number of pick faces increases, the pickers will be more “spread out”, and the flex and static model is operational
- The case flow percentage (e.g. bulk) increases as a percentage of anticipated unit shipments, from 27% in November '16 to 34% in December '16, to 42% in January '17, and 44% in February '17. As noted earlier, case flow (e.g. bulk) is more efficient to fulfill.
- The table above includes the staffing plans for picking, which is considered by warehouse management to be the current process constraint
  - Currently, the warehouse has 18 trained pickers (Client employees and temporary workers), and 4 additional pickers have been hired
  - Given previous experience, the training to enable a productive picker is approximately one week, and the Company has created process documentation to support this requirement

- Further, the warehouse team has implemented cross-training across picking, VAS, and packing, which allows for staff re-allocation based on process needs
- Warehouse management indicated that other warehouse areas (e.g. receiving/QC; prepacks and storage; replenishment, etc.) are adequately staff and do not pose any known staffing issues
- Once an order (e.g. a POP) is dropped, the throughput time has been between 2 and 2.5 days

Based on the data provided, the following graphic indicates current performance and density trends which indicate that capacity should be sufficient to operate the warehouse during the period of peak seasonal demand



We requested the warehouse team to estimate the total revenue that this one warehouse location could attain based on maximum throughput and capacity. This estimate is based on the following assumptions and data provided by the warehouse team:

- All GOH locations are operational
- All incoming material is available, when needed
- Number of POPS (e.g. orders) is 60k
- 20 days of operations in a month
- Average GOH price/unit of \$25
- Density is 3
- VAS requirements are minimal
- Other operations, e.g. receiving/QC; shipping and hold; and storage operate as planned

Theoretical Maximum Monthly Revenue Capacity:

- 60,000 POPS per day \* 20 days \* 3 (density) \* \$25/unit = \$90.0 M monthly revenues
- **Based on theoretical analysis, the warehouse has the necessary capacity to satisfy expected demand**
- This additional “headroom” should allow the warehouse to consolidate other channels (e.g. Direct to Consumer) that are currently performed at an outside location

Management’s Readiness

It appears there has been significant improvement in the management and culture within the warehouse. The culture and the attitude have changed from “what do you want me to do” to “let me handle this for you”.

The reasons for this improvement include:

- Organization reporting and personnel changes
  - We were informed that the physical inventory that was conducted in August ’16 was very successful.
  - We understand the process was very disciplined, and the warehouse staff took ownership of the entire process
  - It appears there are now clear relationships that have been formalized between the Executive, Account Services, IT, Distribution, and Finance/Planning teams
    - Organizational linkages are in place between plan creation, plan execution, and score keeping
  - New ideas and approaches are encouraged input from new and existing employees
  - Expertise in specific areas has been injected
    - XXXXX XXXXX has been moved to lead Customer Service and his analytical abilities have assisted in areas such as supply/demand match, review of open orders, allocation, etc.
    - XXXXX XXXXX has been hired as senior WMS analyst and has hit the ground running, assisting WMS users, and developing WMS reports
- Order Flow and Supply and Operations Planning (S&OP) improvements, examples include:
  - At the warehouse, area specialists are involved in daily meetings at operator and management levels
  - Monthly formal S&OP meeting
    - Comprehensive review of order book, forecasts, and production timelines ahead of each booking control date



- Meeting chaired by XXXXX XXXXX but includes all sales VPs, planners, customer service, production, and finance
- Daily warehouse “touch base”
  - Institutional focus on shipping start date rather than cancel date
  - Review orders not on pick for the next 4 weeks along with incoming dates of WIP
  - Prevents warehouse surprises for material receipts, turn time, and orders dropping
- Daily and weekly order reviews at Cypress
  - Weekly: Sales, Customer Service, Production, Logistics, Finance, and Distribution perform a 4-week order review to discuss any current and potential issues and how to solve (S&OP Update)
  - Daily: Determine status of orders and pose questions to the Customer Service team
    - Has reduced number of orders being dropped late
- Single POC to the warehouse – Customer Service (e.g.) XXXXX handles all communications from planning and customer service to warehouse
  - Quicker response time
- No orders are dropped less than 2 days before cancel date without warehouse approval
  - Extensions are obtained prior to dropping to warehouse, causing less confusion
- Greater focus on Pack & Hold
  - Dropping orders at less than 100% available allows the team to smooth production and more efficiently use capacity
- The team is now turning attention to rules for Available to Sell (ATS) order writing/order drops vis-à-vis booking control dates
- Enhanced Reporting: repetitive communication of details reduced by providing systems to communicate expectations and feedback
  - Dashboard and scorecard reports communicate expectations and feedback
  - Entire team is working from the same set of data, reducing confusion and disparate direction

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The following figures illustrate some of the reporting enhancements:

### Daily Score Board



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## Takt Reports – Every Step of RF Processing is Now Measured

## Picking Takt - 12/8/2016

Average Pieces/Pick: 2.52

## Picks

	Goal	45	45	36	45	45	20	45	36	45	45	21	428	
Name/Hour	Zone	06	07	08	09	10	11	12	13	14	15	16	Total ↕	Average
		37											37	37
	ZU	14	14	16	8	12	11	13	11	15	19	9	142	13
	ZU	43	40	34	41	35	16	42	35	46	51	26	409	37
	ZU	61	46	55	53	115	45	73	62	81	67	18	676	61
	ZU	46	37	35	54	42	17	39	26	50	52	27	425	39
	ZU	41	43	33	23	39	14	34	28	32	25	21	333	30
		71	54	41	21	68	20	73	26				374	47
	ZU	54	45	60	38	32	25	48	43	55	53	26	479	44
		3							6	7	7	3	26	5
		29											29	29
	ZU	18	23	24	40	23	11	32	19	21	15	7	233	21
	ZU	40	41	56	15	30	27	59	42	43	29	17	399	36
			12										12	12
	ZU	61	47	20	35	57	33	60	48	58	49	16	484	44
	ZU		6	7	1	11	1		2				28	5
	ZU	19	27	24	32	36	12	46	22	28	33	21	300	27
	ZU	68	47	51	66	71	36	58	46	60	50	18	571	52
	ZU	38	30	31	60	28	18	32	30	27	43	29	366	33
	ZU				9	40	22	23	32	46	33	21	226	28
	ZU	55	36	4	34	62	26	72	59	49	55	24	476	43
Total		698	548	491	530	701	334	704	537	618	581	283	6,025	35
Average		41	34	33	33	44	21	47	32	41	39	19		

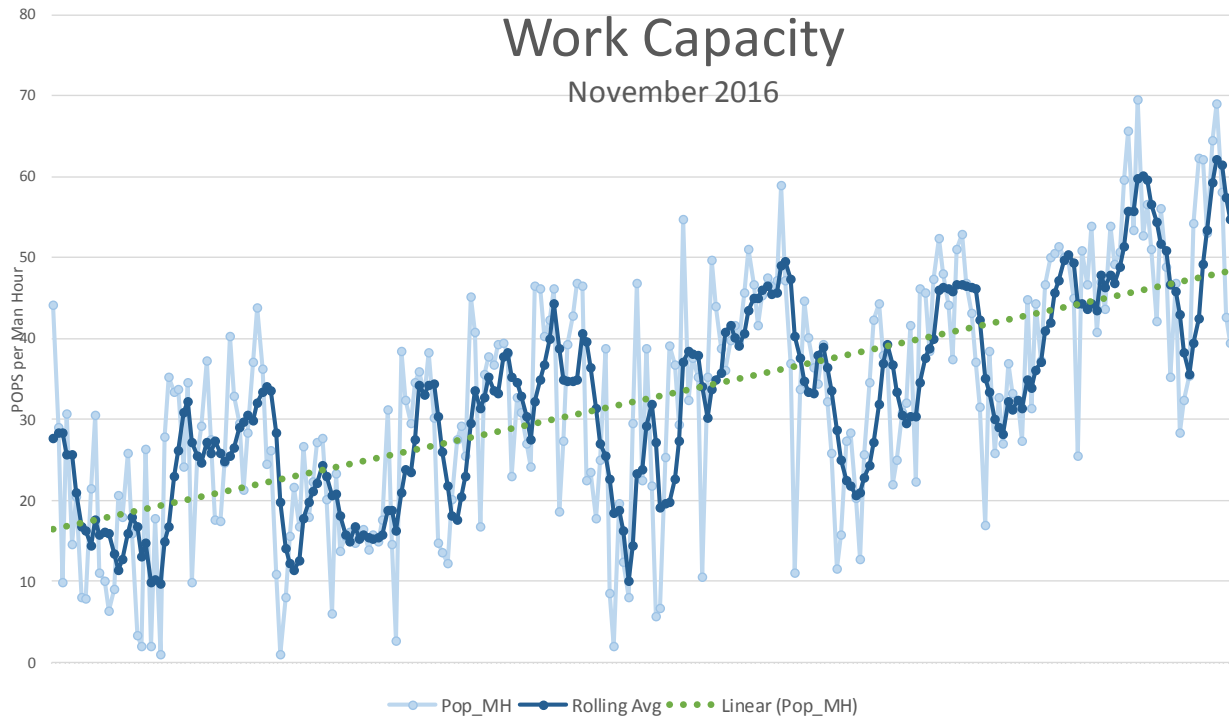
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Takt reports are shown in each work area, updating constantly, to provide continuous feedback to operators

## Warehouse Labor Productivity

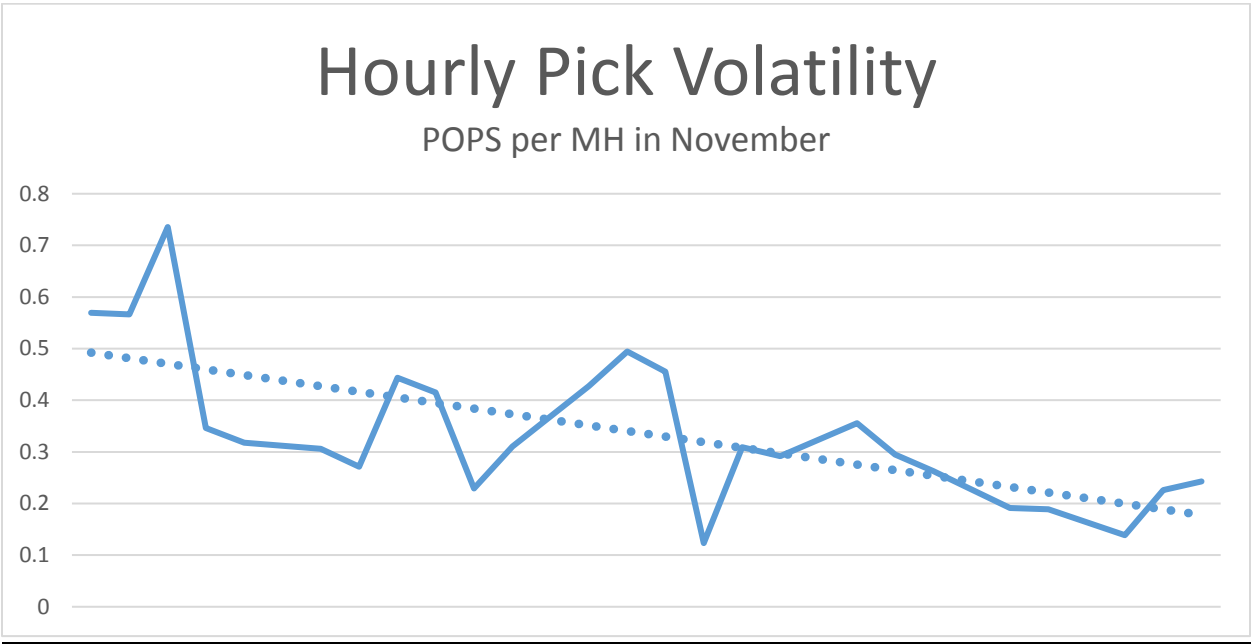
In addition to the enhanced reporting, the warehouse team has created several reports to monitor its performance and monitor labor productivity.

### Pick Capacity



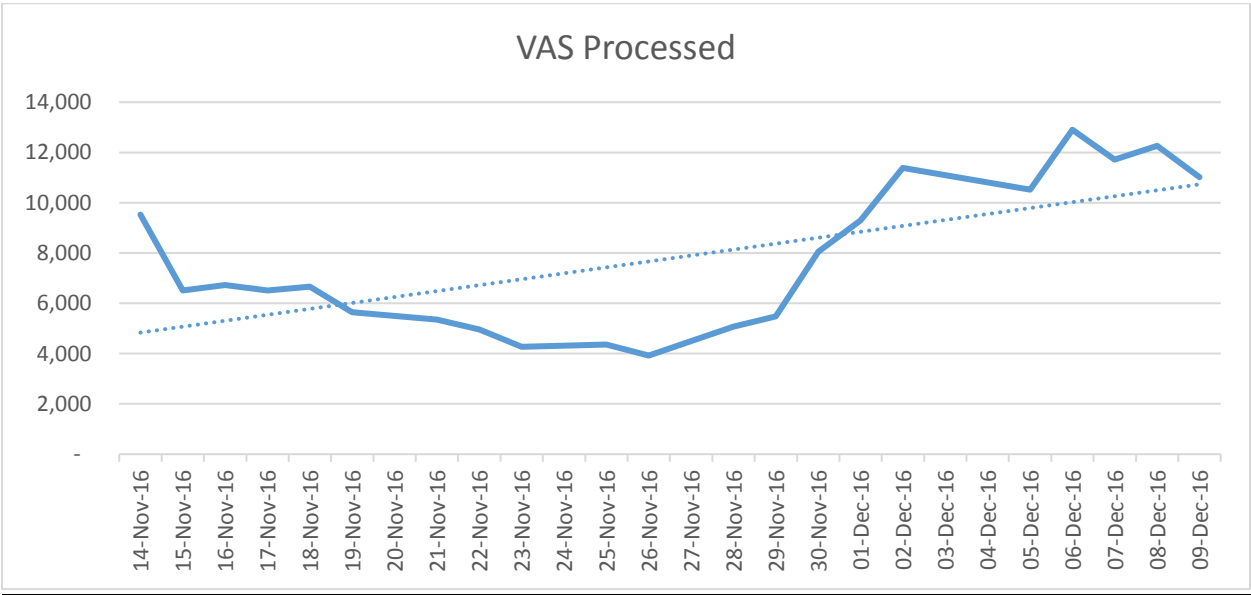
Pick capacity is improving, and has nearly doubled in November. Near the end of November, the pick capacity (e.g. POPS per man hour (MH)) reached approximately 45, which is consistent with the GOH assumptions presented earlier in this report.

Pick Consistency



The reduction in the volatility (Standard Deviation/Mean) of the POPS per man hour implies that the process is under better control.

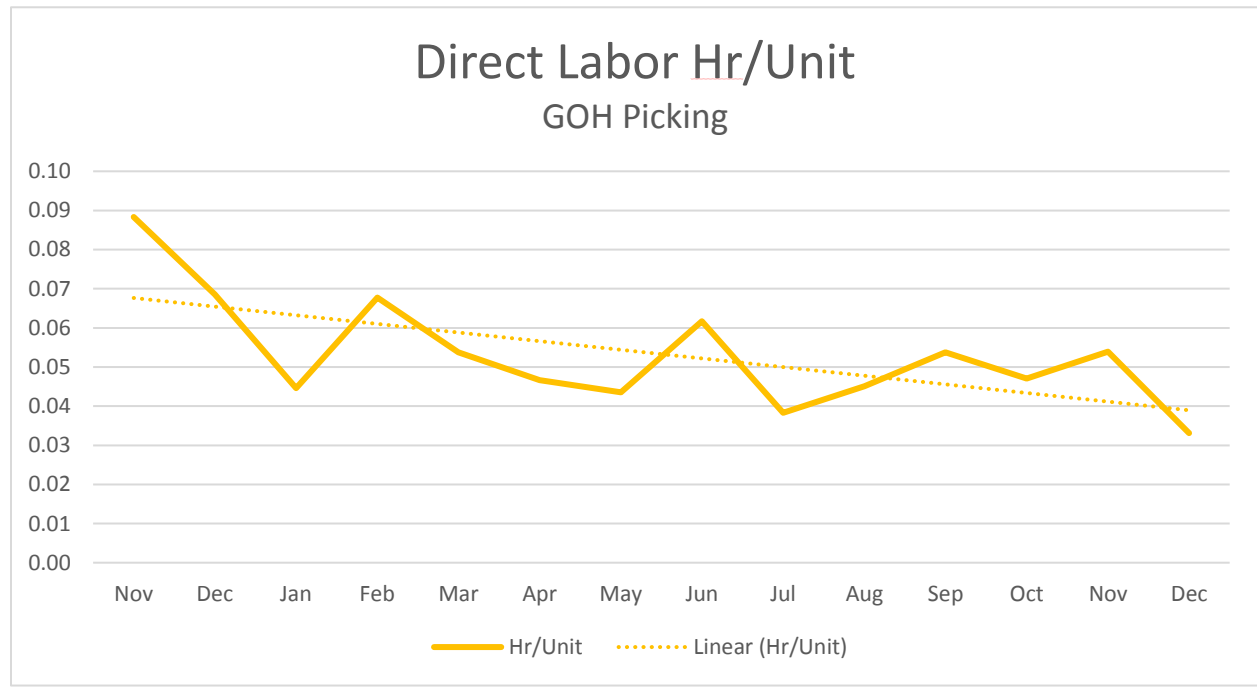
The warehouse has added new VAS Stations, which allows for flexible VAS capacity



Order pattern determines VAS mix. Some smoothing is possible, but flexible capacity is essential to meeting seasonal demands. Heavy VAS orders can be pulled earlier in the month when order patterns may be light.

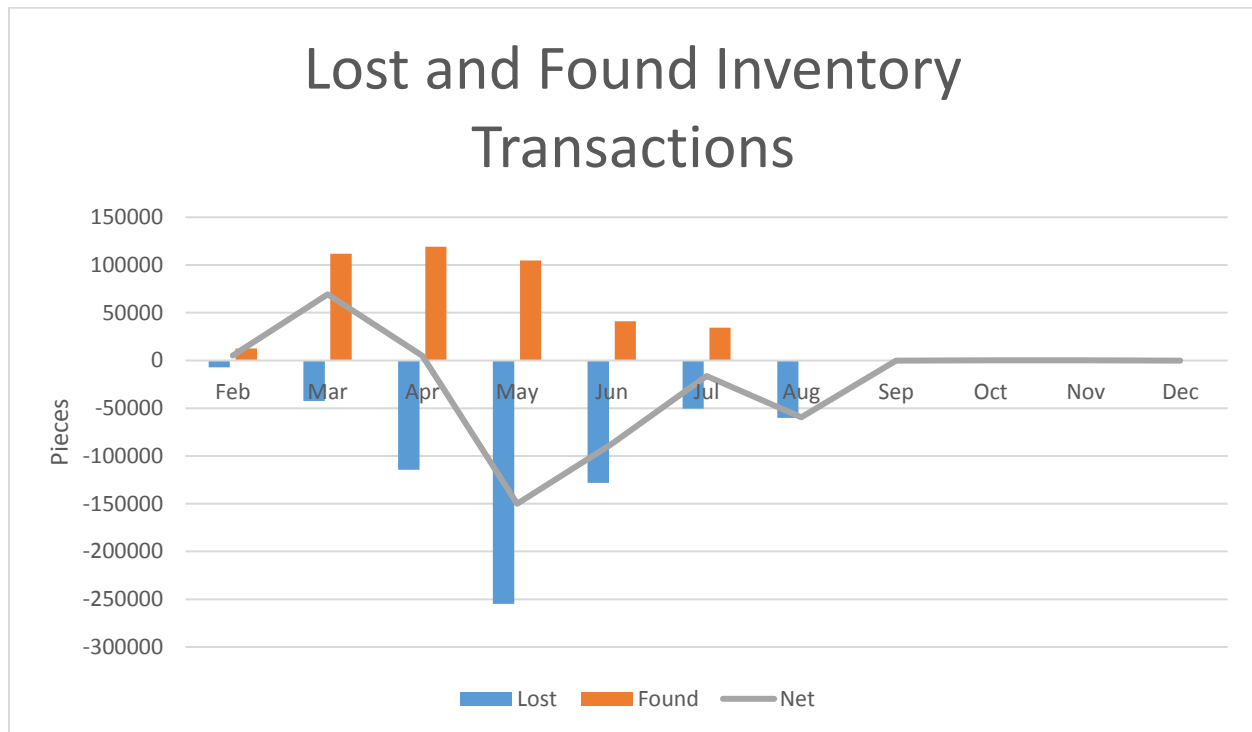
Note: The management of VAS activities must continue to be monitored and managed to avoid disruptions (Refer to the recommendations section)

#### GOH Pick Volume



Direct labor per unit associated with GOH picking has decreased, which is essential heading into peak seasonal demand

## Inventory Adjustments



We understand that the physical inventory, conducted in August '16, was very successful, improving inventory accuracy and nearly eliminating lost and found corrections. An inventory specialist has been hired whose focus is to continue to maintain inventory accuracy by reconciling any inventory discrepancies between ACS and Powerhouse.

## Information Technology

Our discussions with the Interim CIO and broader management team indicate that all the interfaces and enhancements necessary for Season 7 have been fully tested and are operational.

Key information technology achievements:

- The original plan was to move to option 2A in Season 7, and option 1B in Season 8
  - Option 2A was slower conversion with packing and shipping on ACS
  - Move to pack and ship RF on PowerHouse was set for Season 8, with conversion of all order types to RF planned after that
- With new resources on-board, decision was made to go on to option 1B in October
  - Tested, interfaced, and working for all order types included in 1B (1B excludes pre-packs, DTC, and ecommerce)
  - Resources required for option 1B were not substantially more than interfacing to 2A, and those resources were available

Additional key IT achievements:

- Inventory Integrity
  - Collaboration - Weekly inventory meetings, with IT, Finance, Customer Service, and Sales
  - Benefit - Inventory efficiency and integrity
- Infrastructure Changes
  - Low Voltage cables have been run to accommodate New World Upper and Lower Mezzanine Packing Stations
  - Benefit – Better efficiency packing in the Upper and Lower GOH
- Order Enhancements
  - VAS Codes – Created VAS program to update the ACS customer master with correct PowerHouse VAS Codes
  - Benefit – Warehouse efficiency in packing. System driven work rather than “tribal knowledge”
- Inbound ASN & UCC-128 Label
  - Developed UCC-128 barcoded corner label to be applied by the factories for inbound shipments
  - Developed, test, and implemented ASN interface from NGC to PowerHouse
- Receiving team trained on new ASN receiving process
  - Started receiving labeled inbound shipments as of November 2016
  - Benefit – Better, faster efficiency in receiving process and removes human error
- Staff Upgrades
  - Hired XXXXX XXXXX (ACS Developer) and XXXXX XXXXX (WMS Analyst)
  - Much less reliant on outside consultants in IT

**RECOMMENDATIONS (including Contingency Plans)**

Key lessons learned:

- Mix is a key driver of the order flow challenge; visibility is helping smooth order flow
- Order density, size, VAS, special packing looks different in Q1 vs. Q2 and determines daily/weekly/monthly productivity and throughput
- VAS volume and requirements continue to grow; warehouse is working with sales to develop a game plan to reduce VAS or at least be compensated for certain of the added costs
- Increasingly, the warehouse improvement opportunities come from better integrating the XXXXX with XXXXX XXXXX locations



- Leadership must maintain pace control and focus on meeting ship dates (not only achieving revenue targets)

Many of our recommendations that were identified during the spring 2016 have been implemented, and the following are selected additional recommendations:

#### Recommendation #1: Decrease VAS

If VAS requirements are high, and consume valuable resources that can be applied to other warehouse activities such as picking, packing, and replenishment, we recommend that Client investigate options to decrease VAS volume including the following:

- For existing customers with VAS requirements - have the responsible sales individual confirm VAS requirements directly with customers
  - Are customer's VAS requirements still required?
  - Are all VAS requirements required, e.g. perhaps the customer still need the product to be folded, but may find that existing merchandise tags are acceptable, etc.
- Determine if customers can be charged for VAS, especially customers that require multiple VAS process steps or have heavy VAS requirements (e.g. XXXXX and XXXXX and XXXXX)
- Determine if VAS requirements can be "pushed" to suppliers, especially for VAS requirements that occur more frequently
- The cost of pushing VAS requirements to suppliers must be compared with the warehouse continuing to perform the comparable operations

#### Recommendation #2: Enhance Process Documentation

As noted earlier, process documentation (including SOPs) is in progress and appears to be working well for functional areas such as picking, packing, etc. Based on the experience in using these processes, the warehouse team should continue to update process documentation, including translating process documentation to Spanish. Further, the team must document the flex and static processes once these processes become operational.

#### Recommendation #3: Timing of Inventory

As noted earlier, the team has seen improvement in dropping orders closer to start versus their cancel dates. Client must continue to optimize the S&OP and other processes to receive material when required, e.g. near their start date.

#### Recommendation #4: Backfill Key Positions

Client must find a replacement for XXXXX XXXXX, the previous warehouse manager. Mike Anderson, Charles Cooper, and Matt Bonn are all very capable, but this position must be

manned by a permanent employee. The transition time for this replacement should be at least one month to allow for knowledge transfer with the existing team.

The customer service lead role, XXXXX XXXXX, should be backfilled. Besides eliminating a single point of failure, an additional resource can provide sales support, warehouse analytical and reporting tools.

#### Recommendation #5: Accelerate ACN (and UCC-128 label) implementation

Based on our facility tour, a small percentage of cartons have the UCC-128 labels, although the warehouse team has indicated the ACN process is working well. Client's suppliers (such as Mexico) must be enabled to comply with Client's ACN requirements. The ACN process is important in reducing receiving time and eliminating human error.

#### Recommendation #6: Perform Appropriate Contingency Planning

The existing warehouse has the capacity to support the anticipated unit demand.

- As a result, we do not recommend that the Company explore alternative warehouse options (e.g. Third Party Providers, additional warehouse(s), etc.)
- Once Season 7 is well underway, we recommend that the Company continue to consolidate, including the Direct to Consumer channel, which we understand, approximates \$1.5 M in anticipated monthly revenue
- The warehouse re-configuration, especially with the vast increase in the number of pick faces enabled by GOH, better enables the warehouse to ship smaller order quantities (e.g., e-commerce channel). However, the warehouse team must be vigilant to continue to monitor and manage order density and mix.

#### Contingency: Address seasonal increased demand by optimizing existing upper and lower locations

One of the scenarios discussed with the team was, "what happens if G-14 is delayed, (e.g. completing GOH construction, additional inspections, or other unforeseen circumstances)"?

Could the warehouse support the January increased volume with existing GOH capabilities, e.g. with areas G-12, 13 (lower level) and with G-22, 23 (upper mezzanine) only in place?

This estimate is based on the following assumptions and data provided by the warehouse team:

- All incoming material is available, when needed
- G-12, 13; G-22, 23 are all set-up as flex (e.g. no static)
- Number of POPS (e.g. orders) is 12k
- 20 days of operations in a month

- Average GOH price/unit of \$25
- Density is 3
- Other operations, e.g. receiving/QC; shipping and hold; and storage operate as planned

Peak Monthly Revenue Analysis (with existing upper mezzanine and lower level):

12,000 POPS per day \* 20 days \* 3 (density) \* \$25/unit = \$18.0 M monthly revenue

January's anticipated revenue plan (as of 11/22) is approximately \$23.7 M, comprised of the following:

- Case flow revenue forecasted is approximately \$10.5 M
- GOH revenue forecast is approximately \$13.2 M

**This contingency plan could provide approximately \$5.0 M of additional "headroom". However, the team would need to enable this contingency plan (especially moving to a flex model) early in January '17.**

Contingency: Address seasonal ramp by adding additional shift, adding a "functional" shift, or adding additional warehouse staff

Additional Shift

- Currently, the warehouse operates one shift (from 6 am to 4:30 pm). The warehouse could add an additional shift to increase throughput, but would require careful management of warehouse personnel and review of the additional labor cost
- The additional warehouse staff would need to be trained approximately one week prior to a second shift "launch" in order to optimize their productivity while the existing warehouse management team would likely be "split up" to manage the additional shift

Adding a "Functional" Shift

- This contingency is similar to adding an additional shift, but is focused on adding a warehouse functional area, e.g. picking, packing, or VAS for a process bottleneck that might occur
- This contingency could result in adding new warehouse staff, but could be managed with existing staff by staggering shift start times. As noted earlier, there is multiple warehouse staff that is cross-trained in multiple functional areas, e.g. picking, packing, and VAS.

#### Adding Additional Warehouse Staff

- The warehouse could add additional staff based on process bottlenecks, such as pickers, being mindful of the training time needed to make the staff productive
- Further, this option must be managed to minimize congestion, e.g. having too many pickers in any zone