

Client XXXXXXXXXXXX New World Project

Progress Update
December 13, 2016



Physical Changes

December 13, 2016



Warehouse Layout Changes Nearing Completion

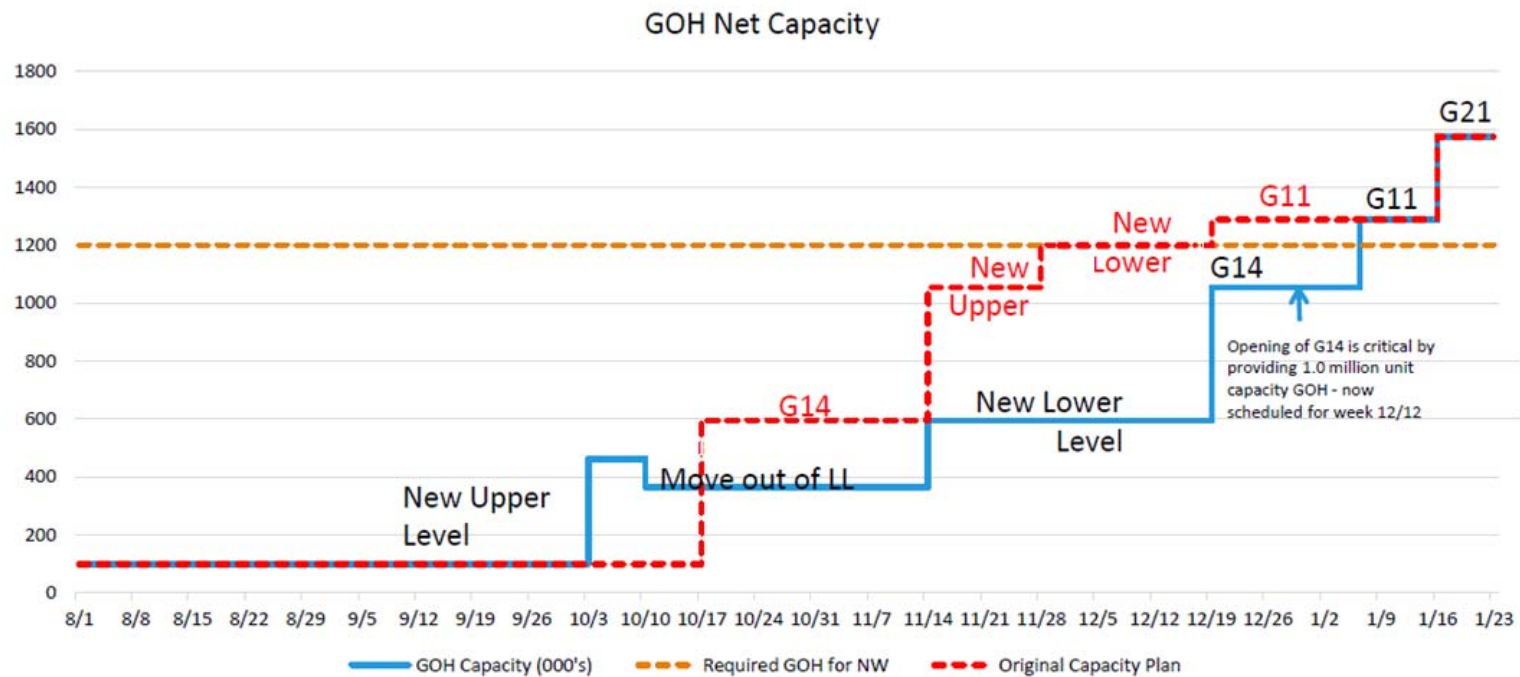
All areas for reconfiguration are under construction, or complete.

Several impediments/opportunities created by **fire code** (in addition to pushing out project timeline 2-3 weeks):

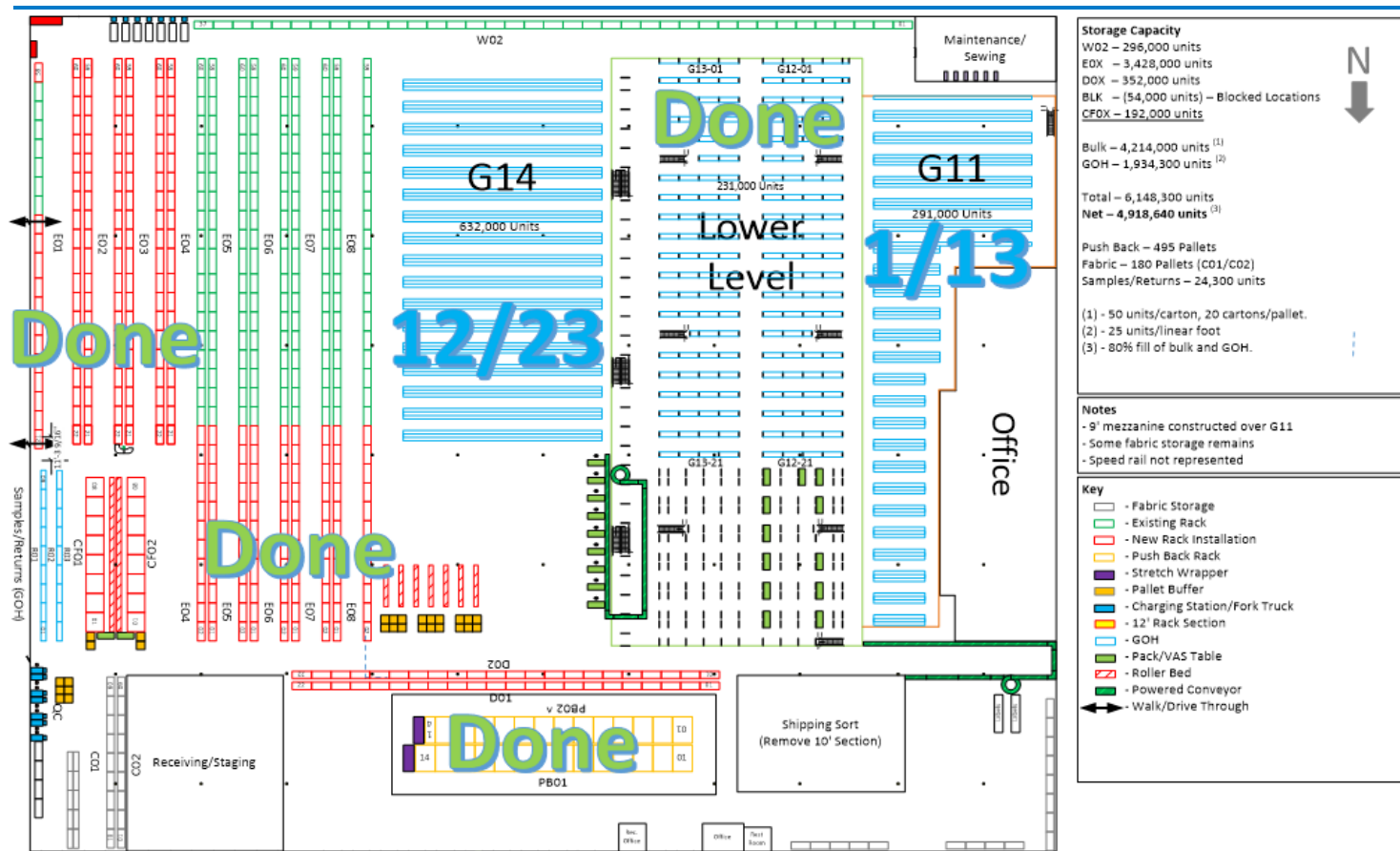
- Fire code required installing a drop ceiling to bring overall ceiling height to under 30 feet
 - Changed order of work to bring Upper Mezzanine (G22 & G23) online first
 - Pushed G14 out until completion of ceiling and sprinkler work
- In rack sprinklers required for G11
 - By installing mezzanine over G11, no need to build deck to direct water flow
 - Mezzanine install was similar cost, met long term goal of additional capacity
- Change in storage type required modifications to in-rack sprinklers in lower mezzanine
 - Pushed full opening of lower mezzanine (G12 & G13) out several weeks
 - Still allows use of lower mezzanine, but partial rotating areas cleared to do sprinkler work
 - Delays full flex/static setup until sprinklers are done (ETA 12/23)

New World Update: Timeline

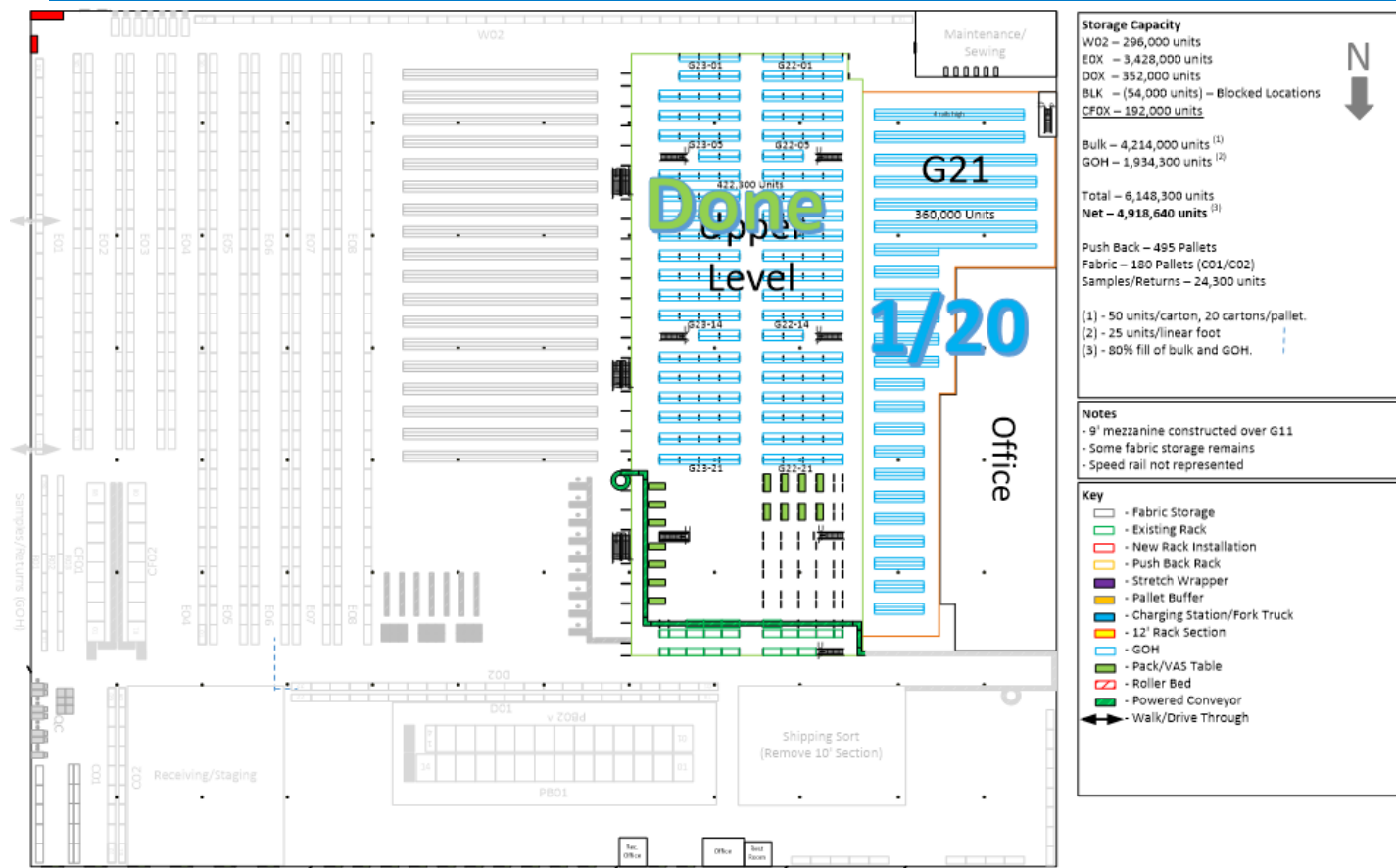
The project timing has moved out modestly driven by (i) permits, (ii) sprinklers and (iii) ceiling, but our key date now is to open G14 before Christmas so we are ready for seasonal upswing in January.



Lower Level Layout



Upper Level Layout

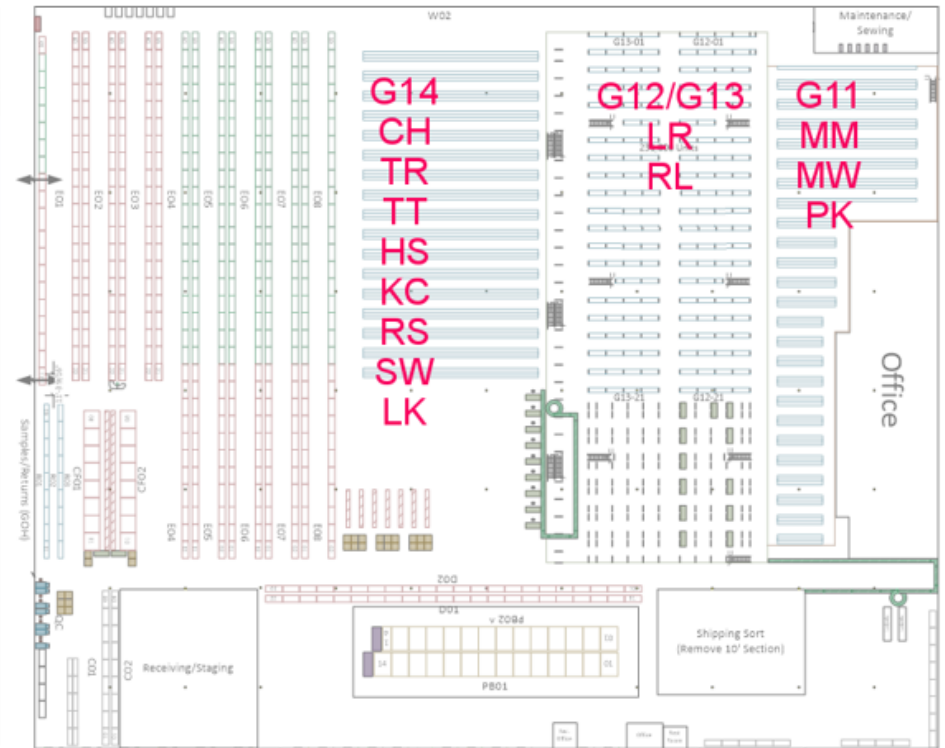


GOH Locations Plan by Division

Upper Level



Lower Level



People Changes

December 13, 2016



New Team and Philosophy in Place

Personnel changes have been made from top to bottom

- Culture change made possible by changing the environment in which we work
- New ideas and approaches have been introduced by new employees
- Expertise in specific areas of opportunity has been injected

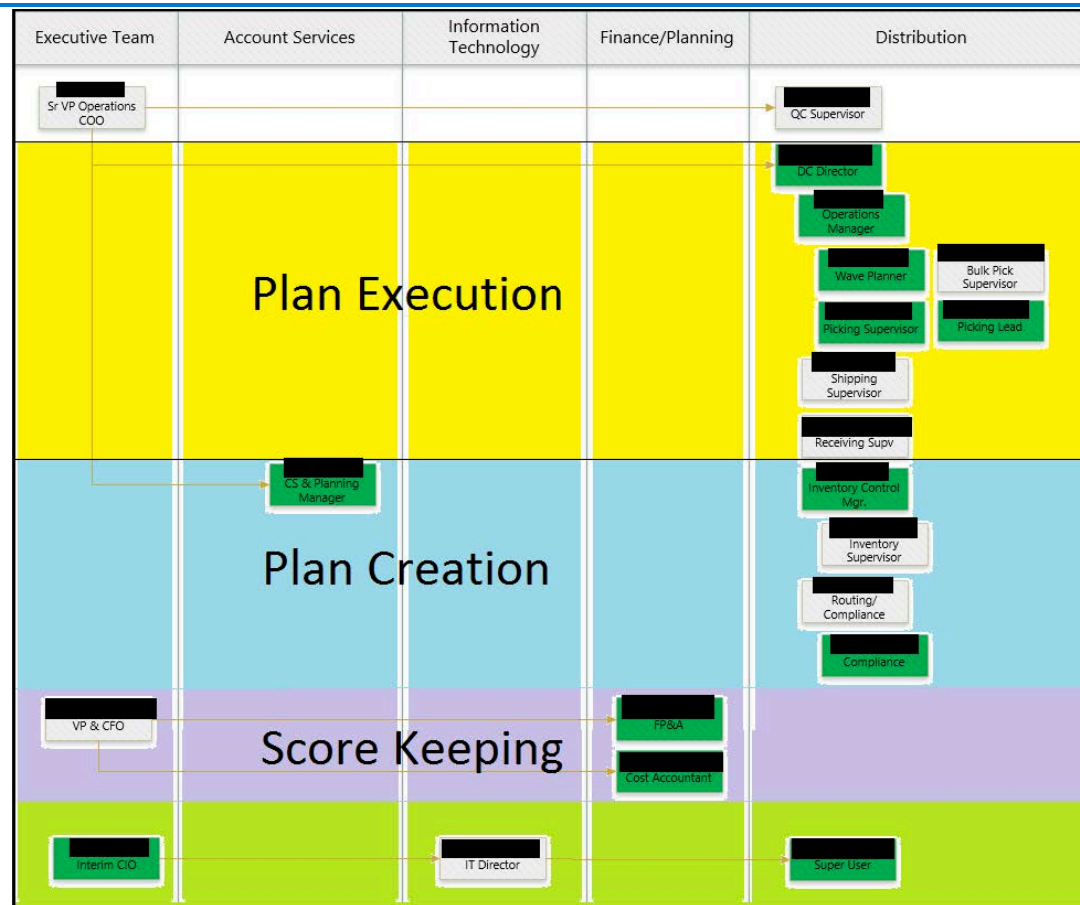
Communication pathways have been radically altered to streamline communication channels

- Direct communication channels for disciplines introduced
- Area specialists are involved in daily meetings at operator level and management level

Repetitive communication of details reduced by providing systems to communicate expectations and feedback

- Dashboard and scorecard reports communicate expectations and feedback
- Entire team is on the same set of data, reducing confusion and disparate direction

Extensive Change in Players and Philosophy



Indicates employees
in role less than 6
months.

Process Changes

December 13, 2016



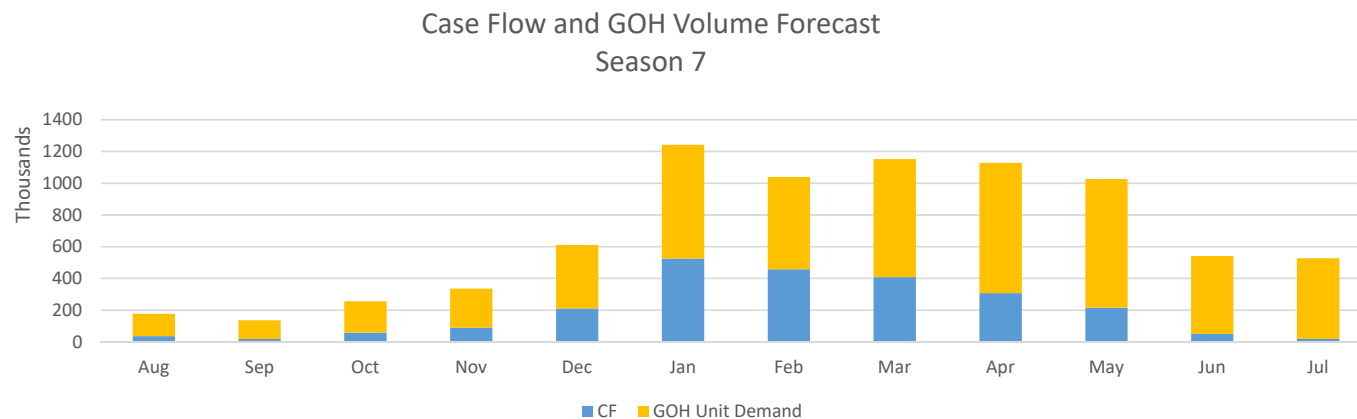
Movement on to New World 1B in Season 7

- The original plan was to move to 2A in Season 7, 1B in Season 8
 - Original option was slower conversion to 2A 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 set for after that.
- With new resources on board, decision was made to go on to 1B in October
 - Tested, interfaced and working for all order types included in 1B (1B excludes pre-packs, DTC, and ecommerce)
 - It was determined the resources to go to 1B were not substantially more than interfacing to 2A, and those resources were available

❖ **Previous shipping issues...BOL, duplicate cartons, no tracking number. Fixed by process!**

View GOH and Bulk as Two Distinct Businesses

- Bulk and GOH work types are different
 - 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
 - Allows for high velocity, high volume picking with limited resources (depending on mix, DC can process over 100k units per day)
 - For Season 7, not using RF for case flow order picking
 - Eventual movement to 1A for Season 8 will bring case flow into RF picking process



Order Flow and S&OP Improvements

- Monthly formal S&OP meeting
 - Comprehensive review of order book, forecasts, and production timelines ahead of each booking control date
 - Meeting chaired by XXXX XXXXXX but includes all sales VPs, planners, customer service, production and finance
- Daily DC Touch Base in BP; looking further out
 - 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
 - Prevent surprises to the DC for receipts, turn time, and orders dropping
- Daily and weekly order reviews at XXXXXX
 - Weekly: sales, customer service, production, logistics, finance, and distribution do a 4 week order review to discuss any current and potential issues and how to solve (S&OP Update)
 - Daily: XXXXX conducts a review of all units open and on allocation in conjunction with a supply demand match to determine status of orders and pose questions to the customer service team. Has reduced number of orders being dropped late
- Single POC to the DC – XXXXX handles all communications from planning and customer service to DC
 - Quicker response time
- No orders are dropped less than 2 days before cancel date without DC approval
 - Extensions are obtained prior to dropping to DC, causing less confusion
- Greater focus on Pack & Hold
 - Dropping orders at less than 100% available allows us to smooth production and more efficiently use capacity
- Now turning our attention to rules for ATS (Available to Sell) order writing/order drops vis-à-vis booking control dates

Daily Score Board – Keeps Plan Creators on the Same Page



Order Bank

■ Invoiced ■ On Dock ■ Pick ■ On-hand

Unprocessed: 55* 9,270 2,556
Processed: 18,192 9,304
Avg Daily Units** 27,483
Avg Daily Pups** 7,837
Days 17 5
* Represent Invoiced + Pick + OnHand Total of \$11,826
** Last 7 calendar days of activities (Processed)

Current Mo Rev (\$ Mix On-Time & Late)

■ Invoiced ■ Open ■ Discount ■ Full Price

Top 10 Credit Holds

Cust Name	902,875
	599,583
	89,730
	41,796
	37,920
	27,181
	26,137
	18,137
	17,992
	16,131
	15,578
	12,682

Future Month Outlook

Revenue (\$ Outlook)

Margin (%) Outlook)

Season	OH @ StdCost	OH Qty	ATS Qty
2	\$ 1,739	225	225
1-3	\$ -	-	-

Season	OH @ StdCost	OH Qty	ATS Qty
4	\$ -	-	-
5	\$ -	-	-

Season	OH @ StdCost	OH Qty	ATS Qty
6	\$ 3,552,964	383,829	262,706
7	\$ 14,385,090	1,491,816	321,274

WH	OH @ StdCost	OH Qty	ATS Qty
DS	\$ 37,102	2,340	2,340
05	\$ 383,980	38,693	38,693

Top 10 Unconfirmed Acct

Cust Name	1,000,852
	167,290
	135,659
	115,628
	101,140
	97,234
	88,795
	74,791
	68,219
	56,881
	47,727
	47,488

- Confidential -

Wave Gate Keeper – Keeps Plan Executors on the Same Page

Wave Gate Keeper - POPs

Wave ↕	Wave Date	Cancel Date ↕	Submitted Date/Time ↕	Description	Wave Type	Total Pcs	VAS Pcs	Picked Pcs	Packed Pcs	CRP	CRD	POP	Pcs / Pick	Calc	Short	Other Pending
7676	12/05/16	12/09/16	12/05 12:01 PM		LOW GOHSKU	2,144	2,144	2,144	1,820					100.00%		
7675	12/08/16	12/09/16	12/06 09:36 AM		LOW GOHSKU	2,522	2,522	305				524	4.23	100.00%		
7692	12/07/16	12/09/16	12/06 11:03 AM		UPS<U	2,314	2,314	111	35			807	2.73	100.00%		
7683	12/07/16	12/02/16	12/07 06:35 AM		UP	2,612	2,612	680	540			689	2.80	100.00%		
7670	12/08/16	12/09/16	12/07 09:49 AM		UP	4,042	4,042	4,042	3,475					100.00%		
7694	12/08/16	12/09/16	12/07 11:02 AM		UP	1,742		72	72			834	2.00	100.00%		
7689	12/08/16	12/09/16	12/07 11:12 AM		UP	3,186						1,566	2.03	100.00%		
7718	12/08/16	12/09/16	12/07 01:31 PM		UP	29		22	5			5	1.40	100.00%		
7671	12/08/16	12/09/16	12/07 01:34 PM		UP	3,537	3,537	3,537	1,384					100.00%		
7703	12/08/16	12/13/16	12/07 02:59 PM		UPS<U	1,261	1,261	1,261	861					100.00%		
7681	12/08/16	12/06/16	12/08 07:25 AM		UP_PCL	2,125	36	822	342			937	1.39	100.00%		
7693	12/09/16	12/09/16	12/08 07:44 AM		LOW GOH	1,728						622	2.70	97.22%	48	
7674	12/09/16	12/09/16	12/08 09:19 AM		LOW GOHSKU	3,834	3,834					1,267	2.98	98.41%	61	
7696	12/09/16	12/12/16	12/08 01:48 PM		UP	894						296	3.02	100.00%		
7697	12/09/16	12/12/16	12/08 01:55 PM		UP	455	455					299	1.52	100.00%		
Waves:	15					32,425	22,757	12,996	8,534			7,846	2.46			

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Takt Reports – Every Step of RF Processing Is 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 to be shown in each work area, updating constantly, to provide continuous feedback to operators.

Results To-Date

December 13, 2016



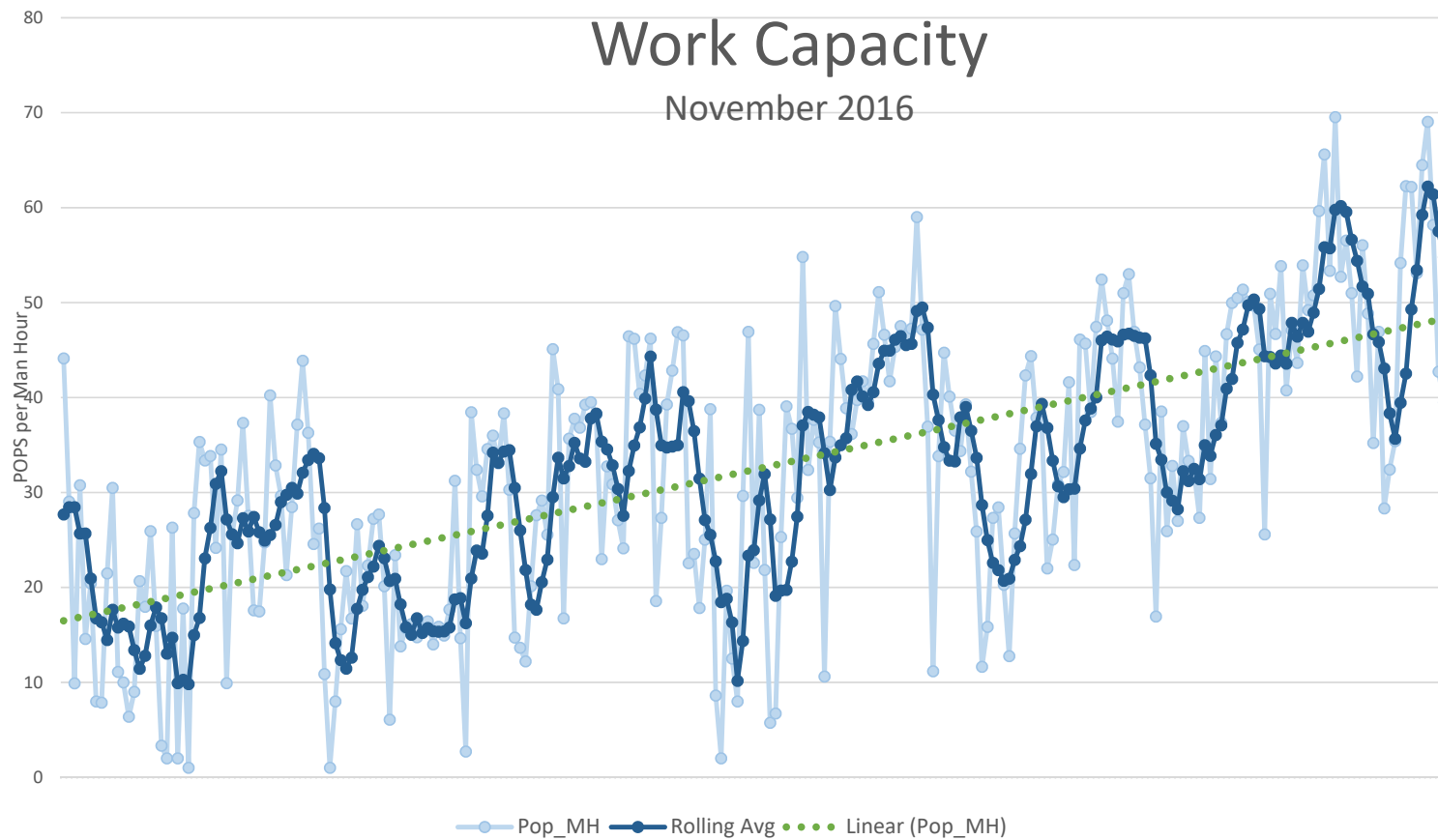
New World Key Operating Achievements

- Operating in the Upper Mezzanine and Lower Mezzanine with pick, pack and VAS
- Driving all activity with RF directed work, excluding Case Flow (i.e. private label) and set matching
- VAS Capacity has been maximized in the small footprint, reducing impact on shipping
- Pickers are trained on RF picking. Takt for prior manual pickers (new RF pickers) now approaching that of seasoned RF pickers.
- Extended PH to pack and ship (originally planned for season 8); seamlessly achieved and eliminated that interface between PH and ACS.
- Flex and static replenishment coding is well underway. Division locations near completion
- New systems, processes and personnel 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 are de minimis

New World Lessons Learned

- Mix is as big a risk as ever. Order density, size, VAS, special packing look different in Q1 vs. Q2 and determines daily/weekly/monthly productivity and throughput
- VAS volume and requirements continue to grow; we are working with sales to develop a game plan to reduce VAS or at least get paid for some of it
- Increasingly the opportunities come from better integrating Cypress with Buena Park
- Leadership must maintain pace control and focus on meeting ship dates (not only achieving revenue)
- Future order interface work to be completed
 - Pick By SKU flag sent with Pick Ticket
 - Integrate VAS instructions into ACS order prior to PH download
 - Customer Master Sync
 - In-Transit air freight (Split ship visibility)

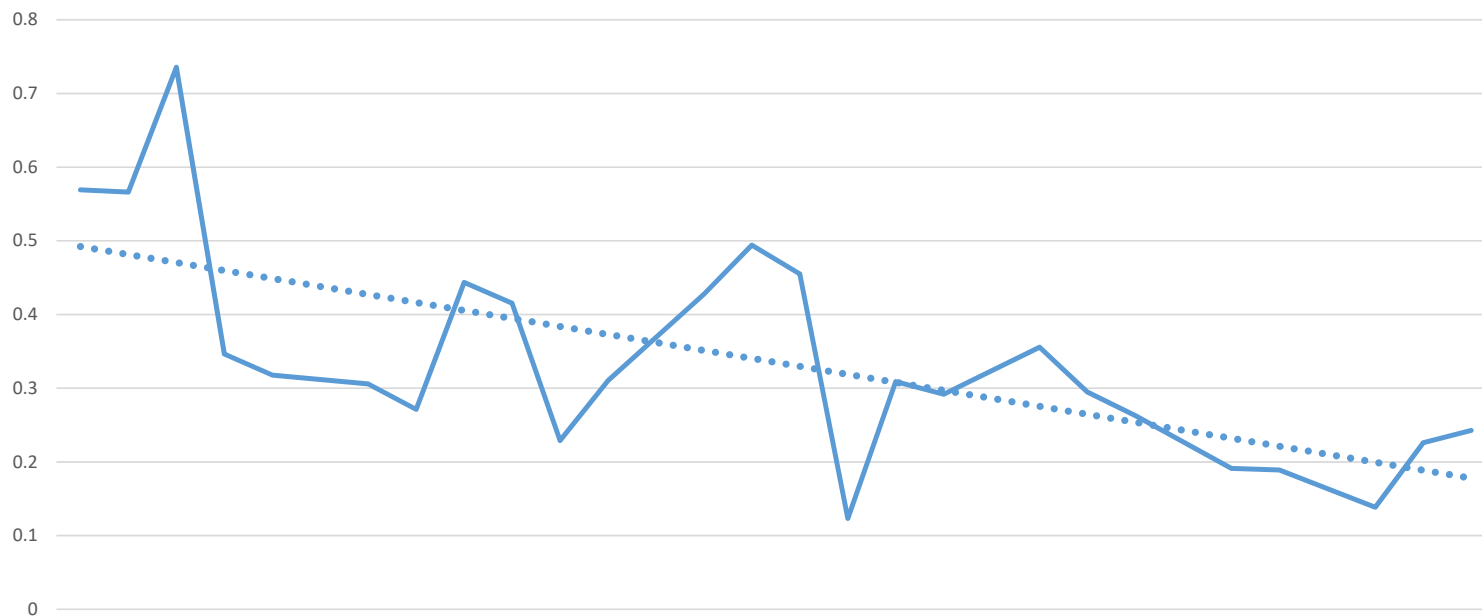
Pick Capacity is Improving – Nearly Doubles in November Alone



Pick Consistency is Improving

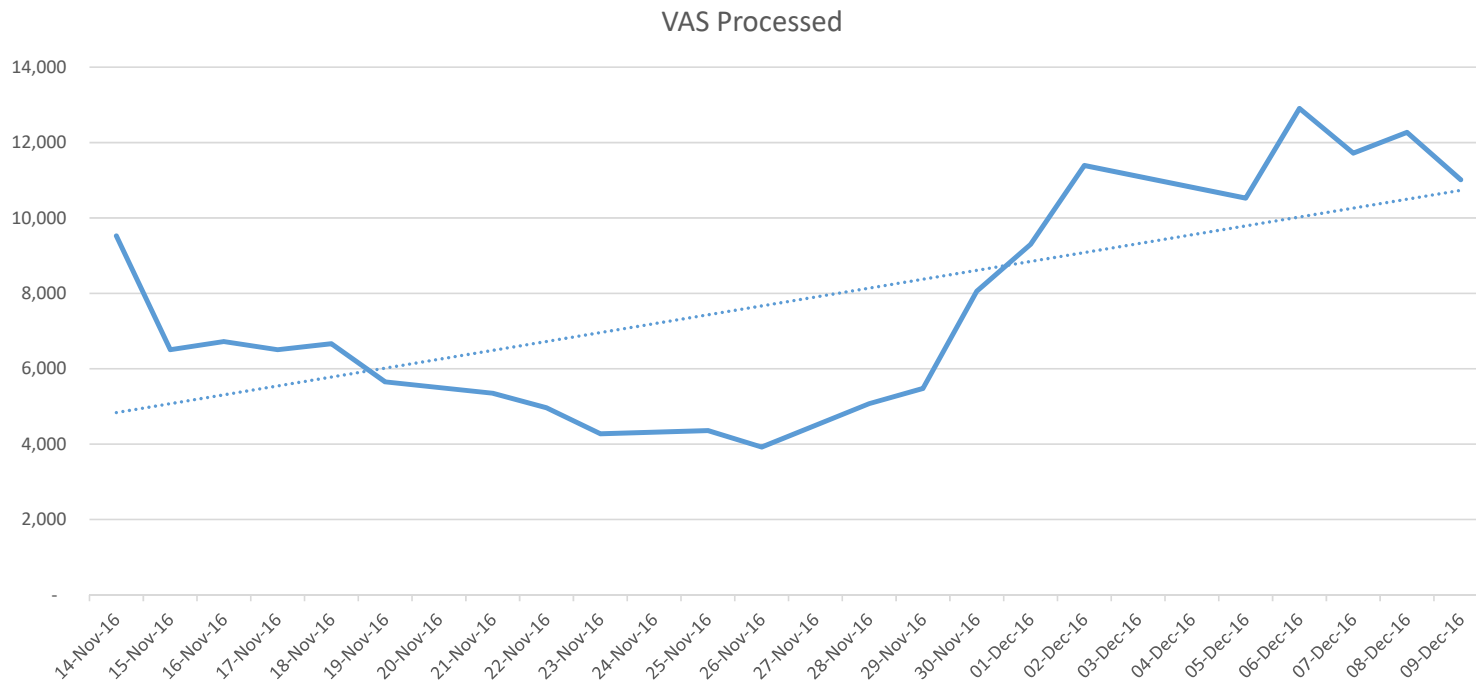
Hourly Pick Volatility

POPS per MH in November



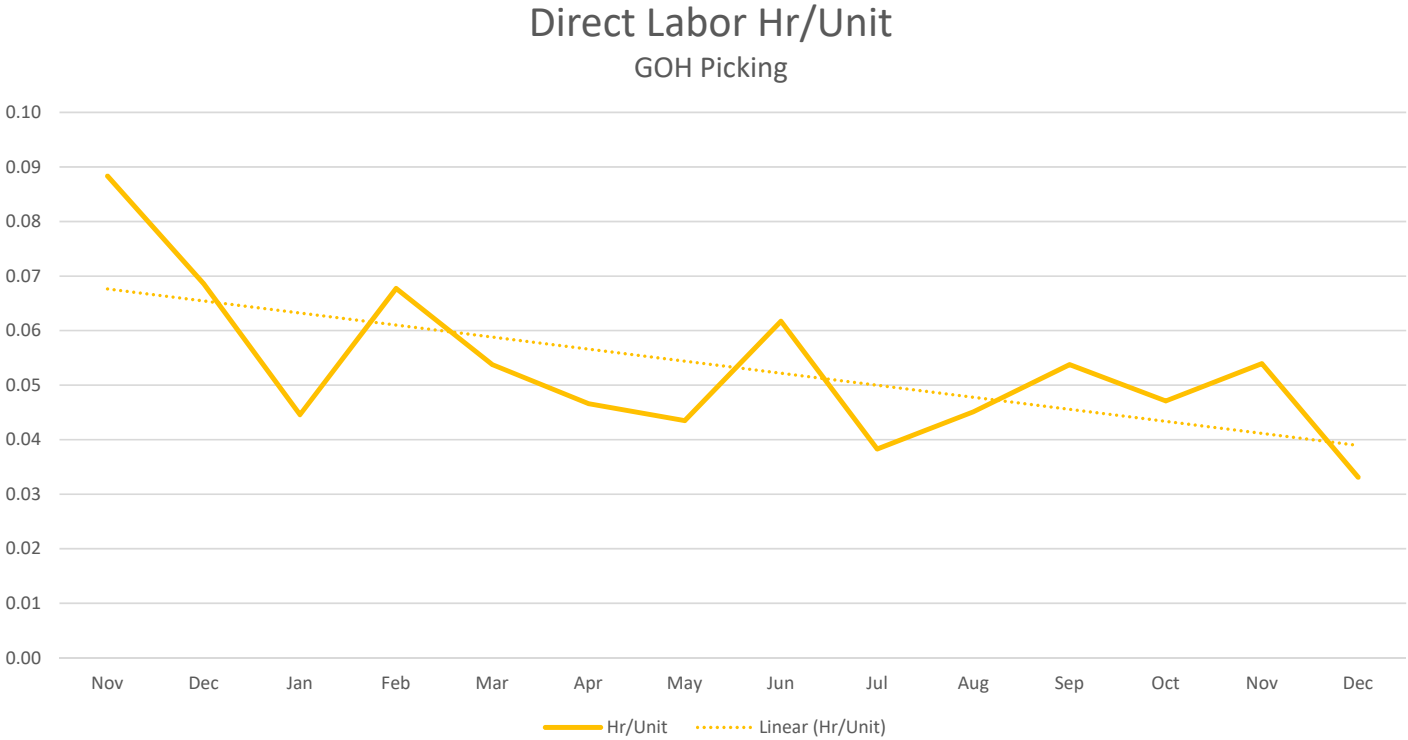
Reducing volatility (StDev/Mean) shows a process under control

New VAS Stations Allow For Flexible VAS Capacity



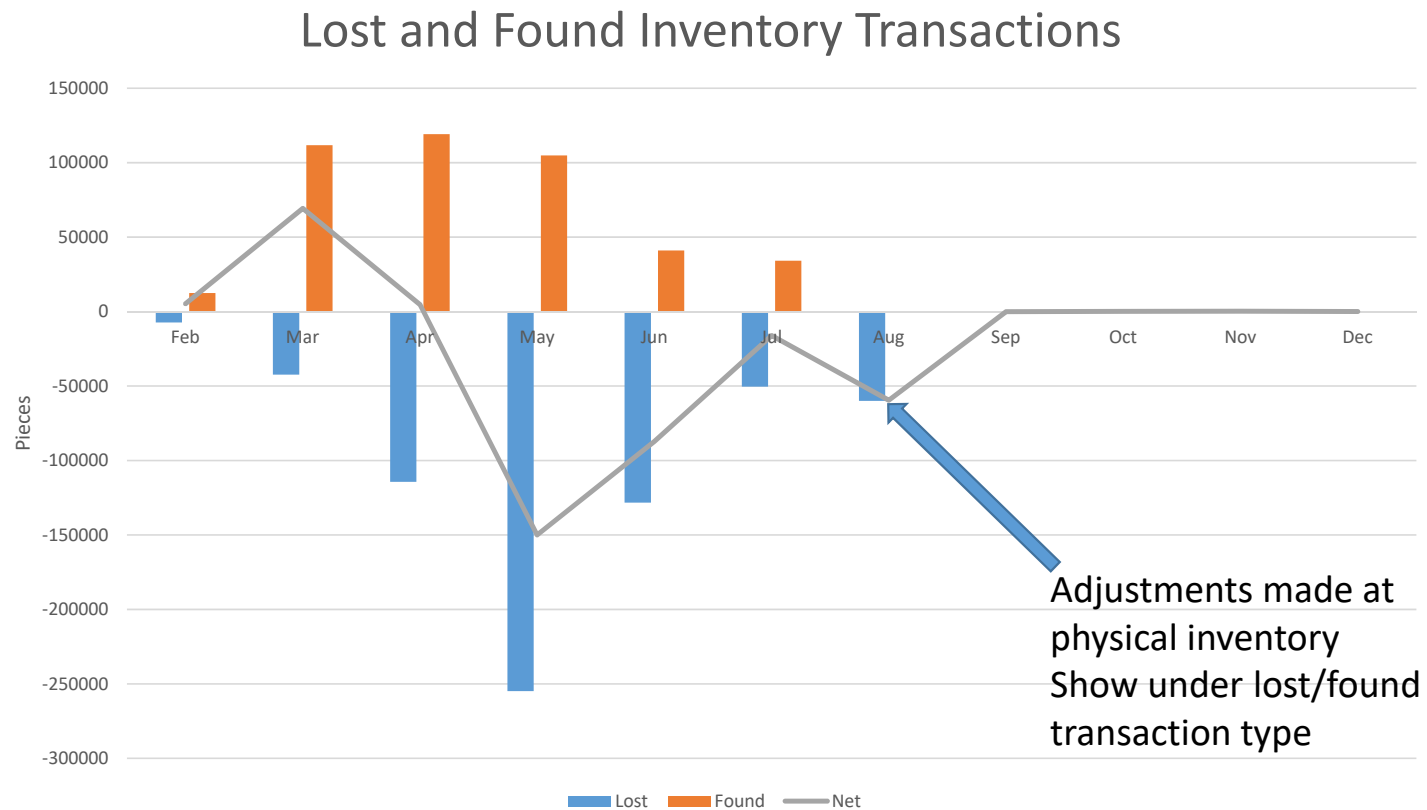
VAS mix is determined by order pattern. Some smoothing is possible, but flexible capacity is key. Heavy VAS orders can be pulled earlier in the month when order patterns may be light.

GOH Pick Volume Takes Less Labor to Process



Direct labor associated with GOH Picking is dropping

Inventory Accuracy Nearly Eliminates Lost & Found Corrections



IT Initiative Accomplishments – Including Move to 1B

- **Inventory Integrity**
 - Collaboration - Started 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 Power House VAS Codes
 - Benefit – DC efficiency in packing. System driven work rather than “tribal knowledge”
- **Inbound ASN & UCC128 Label**
 - Developed UCC128 barcoded corner label to be applied by the factories for inbound shipments
 - Developed, test, and implemented ASN interface from NGC to Power House
 - 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 Upgrade**
 - Hired XXXX XXXXXX (ACS Developer) and XXXXXX XXXXXX (WMS Analyst)
 - Much less reliant on outside consultants in IT

Looking Forward

Anticipated FY17 and Next Steps
December 13, 2016



Project Continuation

The project is within budget, but slightly behind timeline due to permitting constraints

The operation is well under control

- Our 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 is solid

- Complete physical in August cleaned up two years' errors
- Audit showed <1/2% variance
- Lost and Found (inventory inaccuracy cleanup) transactions are nearly zero

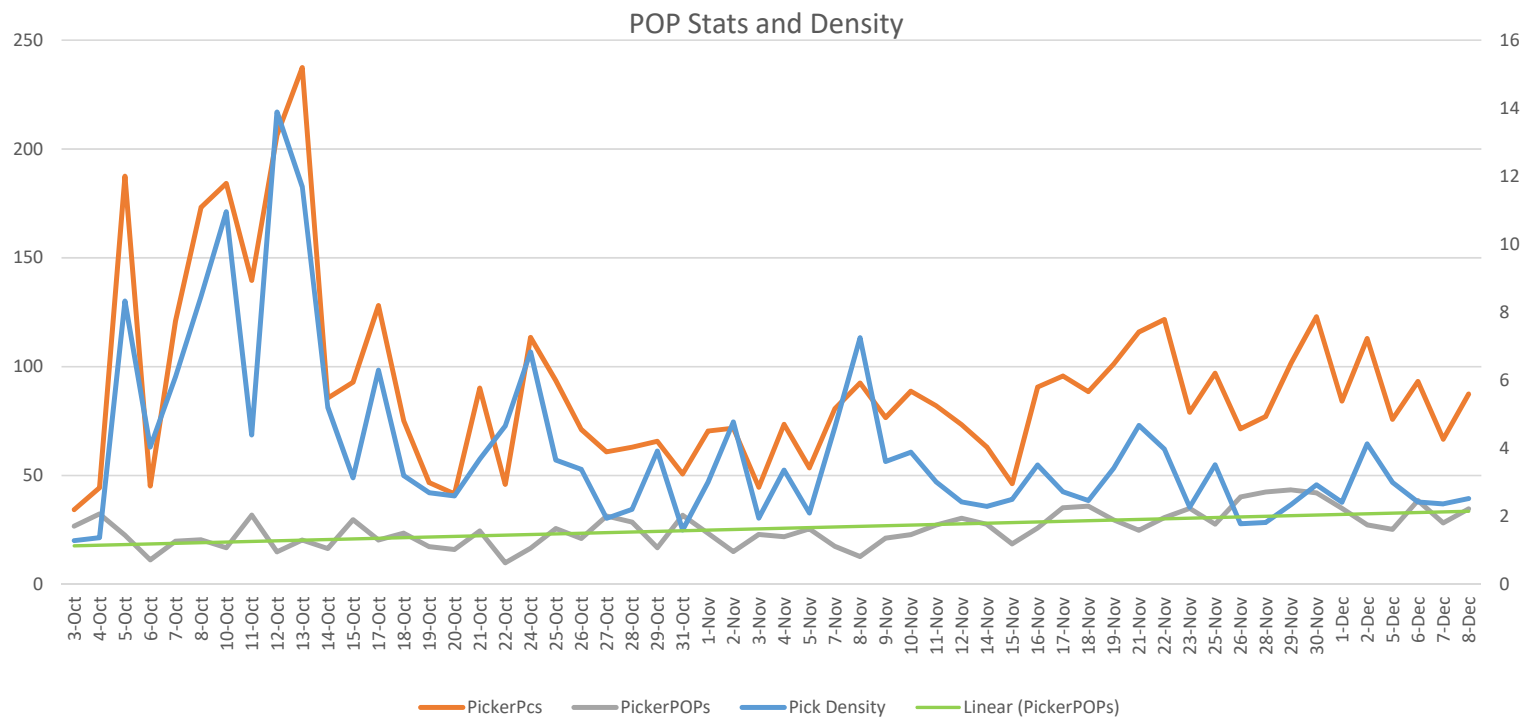
New World will achieve demand based on volume forecast and expected characteristics of that volume

- Our capacity curve is where we expected
- Density is following closely to Season 6

New World Budget – Tracking to Favorable

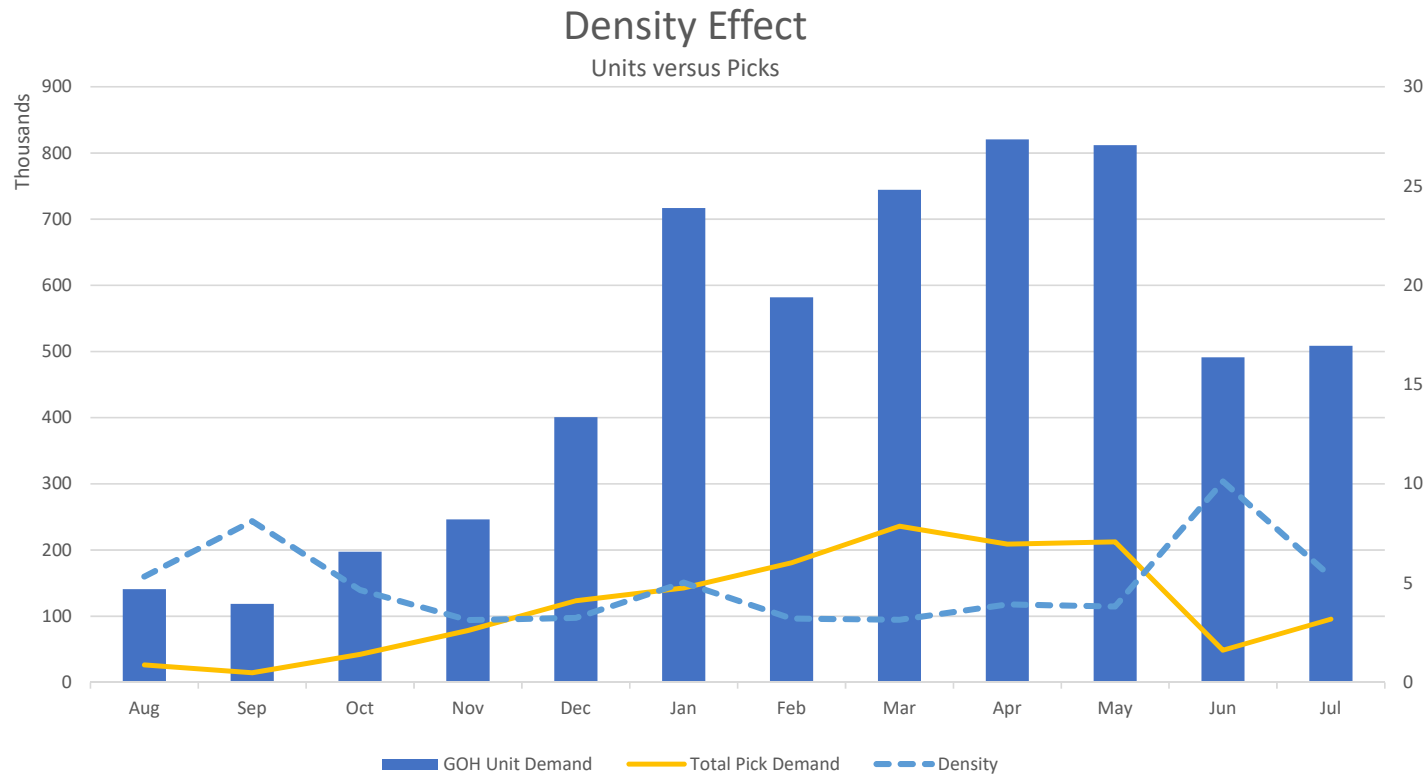
Category	FY17 Bank Plan	FY17 Paid	Revised Projection	Remaining To Pay	
Ceiling Installation	\$ 201,500	\$ 29,391	\$ 109,950	\$ 80,560	Reduced footprint
Conveyor reconfiguration	262,652	228,126	235,101	6,975	
Electrical Contract Services	31,450	33,920	107,300	73,380	New lighting plan
Engineering Services	44,060	12,181	55,381	43,200	
GOH Lighting	186,250	-	195,000	195,000	New lighting plan
GOH Hardware, Accessories & Installation	1,325,914	472,227	1,122,716	650,489	
Permitting & Certification	13,750	6,876	25,719	18,844	
Professional Fees	-	-	31,100	31,100	
Racking & fixuring removal	53,000	41,711	132,855	91,144	
Sprinkler System Reconfiguration	270,500	-	192,000	192,000	
AS/400 Consulting	18,400	-	18,400	18,400	
Powerhouse Consulting (QSSI)	32,000	60,000	90,000	30,000	Completed 1B this phase
IT Hardware	7,696	278	8,000	7,722	
Temp Labor	-	21,131	-	-	GOH Install Uper/Lower
Contingency	244,717	97	232,352	211,124	
Total	\$ 2,691,889	\$ 905,938	\$ 2,555,875	\$ 1,649,937	
Proceeds From Sale of Assets			20,000	20,000	
Net Capital Spending	\$ 2,691,889	\$ 905,938	\$ 2,535,875	\$ 1,629,937	

Normal Seasonal Density Impacts Unit Pick Capacity



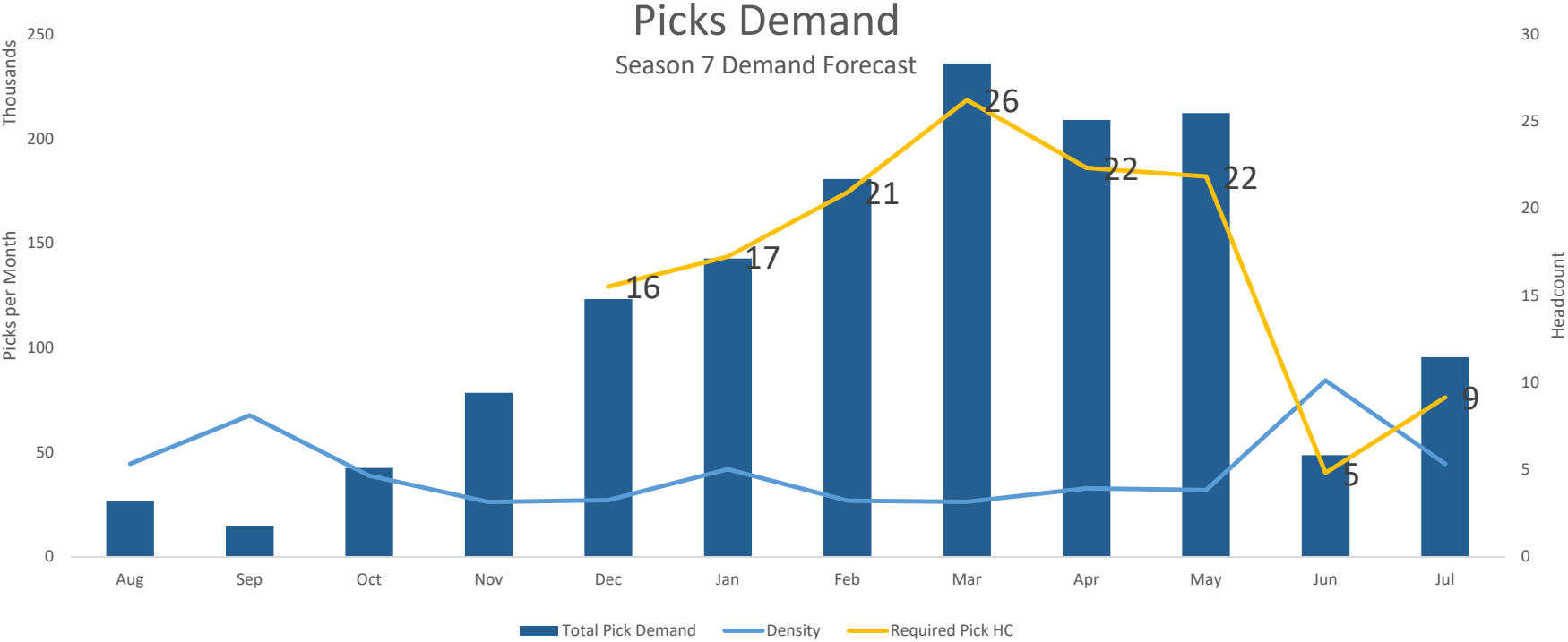
Reduction in pick density is along seasonal norm. This density is accounted for in headcount plan. Capacity will be sufficient if density seasonality is normal.

But Density will Improve going into Peak Season



Higher density moderates increased work to meet increased unit demand.

Current Performance and Density Trend Shows Capacity is Sufficient



Continued IT Progress – Move to 1A for Season 8

- Inventory Integrity
 - Maintaining Inventory Integrity will remain IT's primary focus!
- "New World 1A"
 - Samples – Need to be able to transact against samples in PowerHouse.
 - Allow samples to flow through normal PowerHouse order process.
 - ETA – December 2016 – Currently in development.
 - Ecommerce integration to flow direct to consumer and ecommerce orders through PowerHouse!
 - This is currently out of development and in testing!
 - ETA – End of December 2016
 - Ship Via – Creating, and updating ACS attributes to match Power House.
 - Benefit – Increased efficiency in order download to Power House. Less time filling in missing information.
 - ETA – End of December 2016, currently in development.
 - Pre-Packs – Currently handled outside of Power House and shipped through ACS.
 - Goal is to develop a parent / child relationship in ACS for pre-packs.
 - ETA – TBD / Summer 2017
 - Multi Divisional Orders – Allow for more than one division or brand on an order.
 - This will aid in the ability to bring ecommerce in house.
 - Allows us to scale the direct to consumer business.
 - ETA – Spring 2017