



Jocelyn Peters
Partner
PricewaterhouseCoopers
101 East Main Street
Los Angeles, California 90017

Dear Jocelyn,

Thank you for taking the time to meet with me last week. I appreciate your insights. I came away excited by our discussion and eager to hear more.

As we discussed, this is an interesting time for Essentials. After months of re-trenching, cost-cutting, and what can most politely be described as "heated" internal debate, we believe we are ready to once again look to the future and re-establish ourselves as a cutting edge consumer products retailer. To kick start that goal, our CEO has challenged each member of the leadership team to develop a proposal for how we might best leverage our strengths as we invest in the future of our company.

As the company's Chief Technology Officer, I am particularly interested in making sure that we are fully capitalizing on our shopping channels other than physical stores, including our website and mobile site or app. With over 1,100 stores in the US and around the world, we have a global presence and an infrastructure in place that I believe positions us to maximize the opportunities presented by the latest technologies. I am particularly interested in offering customers an app that will allow them to receive personalized coupons and other incentives on their mobile devices and then use those devices as mobile wallets in any of our stores or to make online or app purchases.

Here's where I'm looking to PwC for help. My team and I are in the early stages of developing a proposal that we plan to submit to our CEO. We are currently researching available technologies and are developing a short list of potential service providers. I am looking to your firm for assistance in structuring a business plan that I can use to sell this idea to senior management. Specifically, I would like you to:

- Review the rough draft business plan that my team has put together and offer any insights on additional information that should be included as we try to "sell" this idea internally.
- Provide guidance on the types of accounting issues that may result from our decisions as we enhance the customer experience and maximize our sales channels. Our CEO is particularly interested in understanding the impact that any proposed initiatives could have on the company's revenue and cost capitalization accounting.

As we discussed, I have attached some background. This should be helpful as your team builds its understanding of our organization and my team's vision. I'd like to include you on the agenda of my staff meeting in two weeks. I can probably get you about 25 minutes during which time I'd like to hear your ideas and then we'd like to have some time to discuss alternatives.

I look forward to hearing from you.

- Excerpts from Essentials current financial statements
- Draft Proposal for M-Commerce Strategy & Deployment

Regards,

Mark Weinberg

Chief Technology Officer



Excerpts from the Chairman's Letter in the 2013 Annual Report

To our Shareholders,

For the last twenty four months we, like most consumer products retailers in the U.S. and around the world, have focused on liquidity and sustainability. We have eliminated unproductive inventory. We have reduced variable expenses. These efforts have placed us ahead of our low cost consumer product peers. We have re-evaluated our expansion plans in North America and have begun to establish a presence in the rapidly growing Asia/Pacific marketplace.

As a result, we are cautiously optimistic about the future. We will continue to grow our business, but that growth will be tempered by the experiences of the last two years. We anticipate that commercial real estate development in North America will continue to be soft as little new product has come onto the market. In response, we have re-evaluated our development approach, and have shifted our focus from building new stores to building our 24/7 on-line presence.

At the same time, we will continue to develop strategies to make our existing stores more productive. We will improve the economics of our existing store base in 2014 through better local marketing, improved inventory management, and key merchandising efforts.

From our vantage point here in our headquarters in Center City, we see a bright future. We are ready to once again invest in our long-term growth. As we grow, our business will continue to be centered on our valued customers. Our customers have remained loyal to us and we will remain loyal to them. In 2014, we will continue to offer a wide range of quality products; we will continue to provide the level of service and product availability that our customers have come to expect; and we will continue to pursue a strategy that is shaped by our customers' expectations for flexibility and value-based pricing.

2013 Fast Facts

- Total sales = \$29.0 billion
- Current Working Capital = \$1.0 billion
- Diluted earnings per share = \$2.52
- Global Capital Investment = \$2.3 billion
- On track to reach 2020 goal of \$40 billion in sales and \$4 in earnings per share in 2017

2013 Selected Financial Data

	For the Year Ended				
	2013	2012	2011	2010	2009
Financial Results: (in millions)					
Total revenues	\$28,563	\$26,646	\$29,825	\$27,507	\$24,041
Net earnings	1,610	1,065	597	825	765
Financial Position:					
Total assets	25,906	24,724	23,824	25,768	24,281
Long-term debt, including current position	5,119	5,931	5,928	5,168	5,377

2013 Store Data

Change in Number of Stores	2013	2012
Beginning store count	1,195	1,319
Opened	7	13
Closed	(98)	(137)
Ending store count	1,104	1,195
Relocated	3	5
Number of stores remodeled during the year	85	65

Store Locations and Ownership Status					
Region	Country	Stores	Ownership Status		
			Owned	Leased	Owned Building on Leased Land
North America	Canada	83	75	-	8
	United States	465	410	-	55
Latin America	Brazil	85	82	-	3
	Mexico	73	51	-	22
	Venezuela	128	104	-	24
Europe	France	68	68	-	-
	Germany	69	69	-	-
	Spain	10	10	-	-
	United Kingdom	75	75	-	-
Asia/Pacific	Australia	30	15	15	-
	Japan	4	-	4	-
	New Zealand	14	2	12	-
Total		1,104	961	31	112

Regional Distribution Center Locations and Ownership Status				
Region	Distribution Centers	Ownership Status		
		Owned	Leased	
North America	13	13	-	
Latin America	8	8	-	
Europe	4	4	-	
Asia/Pacific	3	-	3	
Total	28	25	3	

2013 Selected Sales Data

Sales Source	2013	2012	2011
In Store	90.6%	93.3%	94.4%
On-line	9.4%	6.7%	5.6%
Total	100%	100%	100%

2013 Revenue by Region

Region	Percent of Revenue
North America	49%
Latin America	38%
Europe	9%
Asia/Pacific	4%
Total	100%

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Proposal for M-Commerce Strategy and Deployment

Executive Summary

The purpose of this business plan is to provide details on the proposed deployment of an integrated global customer sales channel strategy for the Essentials brand.

This proposal includes an investment in our digital channels and a focus on reaching customers both inside and outside of our stores to inform their shopping experience. At its core are three website and mobile site or app tools:

- Essentials Help – Pushes coupons and real-time product recommendations to customers.
- Essentials Find – Provides customers with personalized search results and inventory information.
- Essentials Wallet – Allows customers to pay through a wallet app on their mobile devices.

Goals

The primary goal for Essentials in deploying an integrated global customer sales channel strategy is providing customers with tools to enhance their shopping experience and build their long-term relationship with our brand. Additional goals include:

- Gathering data on customer trends and preferences
- Increasing store foot traffic
- Increasing profitability

Strategy

The strategy for achieving these goals will take place in three phases:

- Phase I – delivery by Q1 2015
 - Launch free Wi-Fi in all stores making it easier for customers to access digital tools and services
 - Develop three new tools: Essentials Help, Essentials Find, and Essentials Wallet
- Phase 2 – delivery by Q3 2015
 - Marketing campaign

- Roll-out of core tools
- Phase 3 – Q4 2015 through Q4 2016
 - Track usage and monitor customer data
 - Refine tools and marketing as necessary

Financial Summary

Costs (millions)			
Year	2014	2015	2016
Development Costs	\$450	\$250	\$50
Marketing Costs	100	150	200
Total Expected Costs*	\$550	\$400	\$250

*excludes administrative costs, depreciation expense, interest expense, and taxes.

Revenue (millions)			
Year	2014	2015	2016
Projected Incremental Revenue	\$0	\$5,500	\$8,500

Required Funds

At this time, the development and deployment of this plan is expected to require a total investment of approximately \$1,200 million over three years.

Marketing Plan

The Marketing Plan is currently in development.

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