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Bienvenidos a México

*A Look Inside the Loss Prevention
and Supply Chain Security Program*



Agenda



- **RAC Snapshot**
- **RAC Mexico**
- **Supply Chain Security Program**
- **Understanding the Risks in Mexico**
- **Risk Modeling**

RAC Mexico

Milestones

- October 2010 opened first store in Reynosa with assistance from a strategic partner
- First DC was designed to service up to 30 locations
- May 2012 opened our Field Support Center in Monterrey
- March 2013 we opened our 4th DC and 100th store in 8 states
- Q1 2014 we opened our first 12 stores in the Mexico City market

100th Store Celebration



Key functions and decision making are being methodically shifted to in-country experts as we grow

Marketing

Store Development

Human Resources

IT

Product Service

LP & Security

Training

Merchandising

Accounting

Logistics

Legal

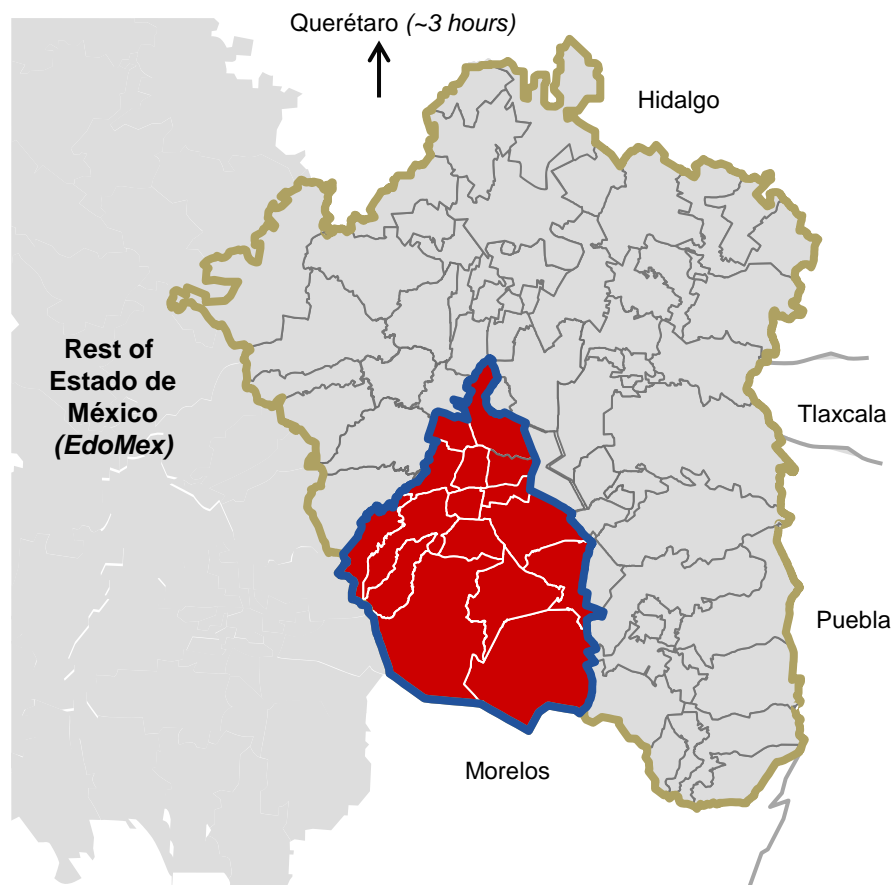


Field Support Center
Monterrey, MX



Mexico City represents a 250-300 store opportunity, and serves an important role in our international expansion

MEXICO CITY AREA



— D.F. — Greater Mexico city area

Source: World Bank; Universidad Autónoma Metropolitana; INEGI

KEY STATS

Population

21M
(19% of total pop in Mexico)

Economic Activity

US\$461B
(40% of Mexico's GDP)

Density

	New York City	Mexico City
Avg. Household Size	100m ²	40m ²
Persons per household	2.6	3.6



Ensure long-term growth by adapting our model to serve consumers in Mexico and beyond

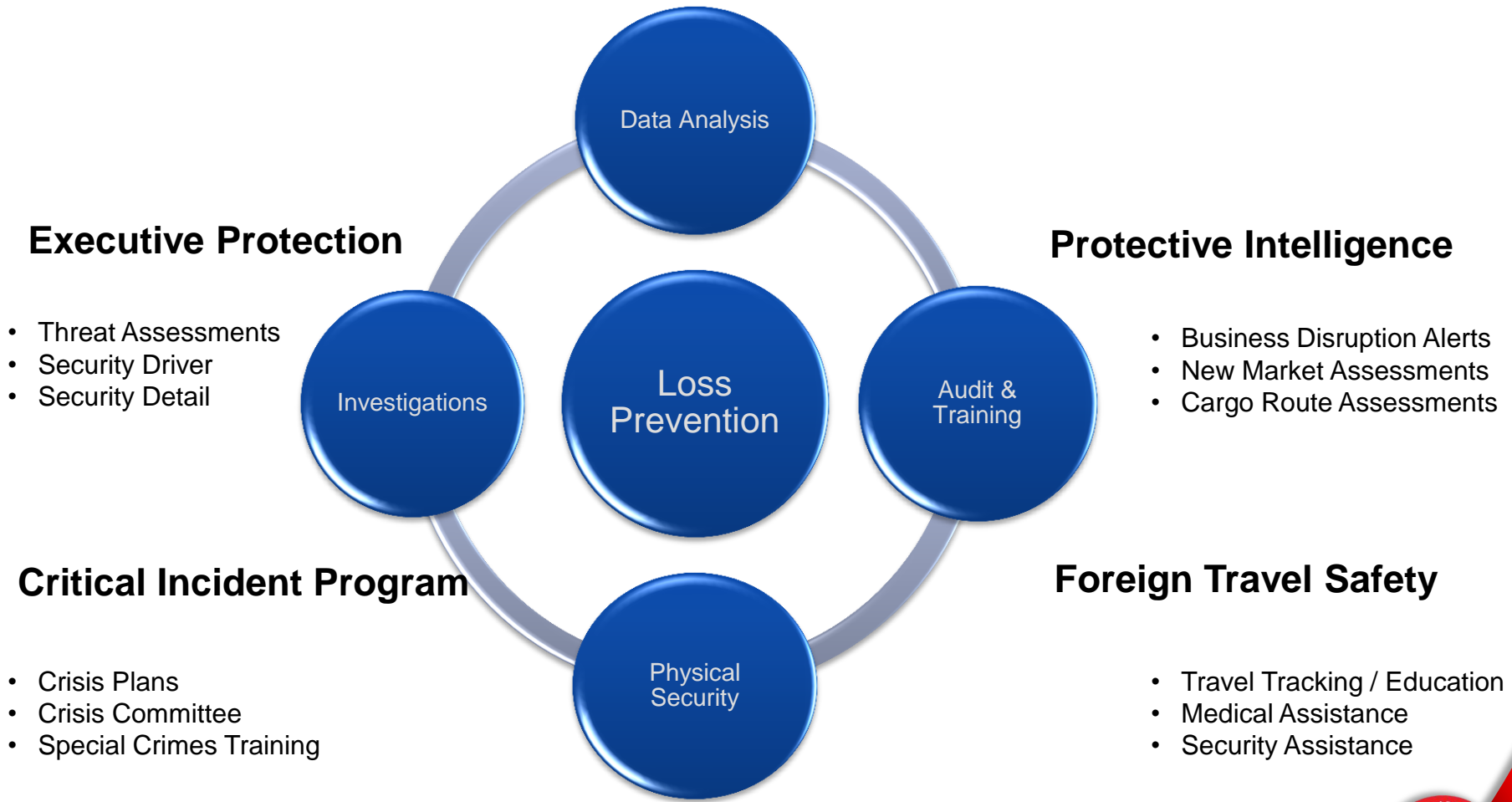


~1,000 Stores

Gateway to Latin America



Loss Prevention & Security Program



Supply Chain Security



Supply Chain Security

Distribution Model

- Service up to 90 locations
- Inbound products received from in country manufactures
- 90% shipments by private fleet
- 10% shipments 3PL
- Transport service returns & repairs
- Weekly cycle counts
- 99.99% inventory accuracy

Inventory Accuracy



Supply Chain Security

Facility Security

- Access Control
- Security Officers 24/7
- Alarms / Panic devices
 - 3rd Party video verification
- CCTV with remote capabilities
- High value product lock-up
- Designated coworker lockers, restroom and break area
- Designated coworker parking

High Value Product



Supply Chain Security

Transportation Security

- 3rd Party Logistics
 - High risk routes
- Private Fleet – 26FT Vanilla Box
 - Verify Documents/Mileage
 - No branding
 - GPS tracked
 - Panic device
 - Locks
 - Seals

Outbound Private Fleet



Supply Chain Security

Transportation Security

- Drivers
 - 2 coworker teams
 - Hotel assessments
 - Hospital assessments
 - Phones
 - ▶ 24/7 call center
 - ▶ Panic button
 - ▶ GPS
 - Emergency Mobile Response

Security Operations Center

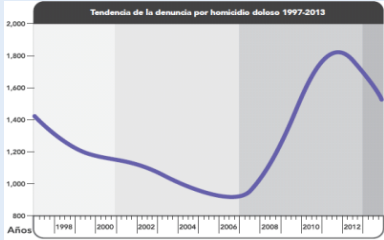


What have we learned?

- Understand the cultural differences
 - Foreign Corruption Practices Act – Facilitation Payment vs. Extortion
 - Business Relationships
 - Background Checks
 - Controls
- Expand your network / benchmark
 - Private Security Professionals
 - State Department
- Medical care
 - Customary to require cash payment / credit card
- Identify competent 3rd party solution providers
 - Independent Consultants
- Prepare, document and practice an emergency/crisis plan

Mexico Crime Overview

Homicide



ONC Incidencia de los Delitos 2013

#1

More Americans are killed in Mexico than any other country in the world.

US Department of State

9

Mexican Cities rank within the top 50 most violent cities in the world.

Ciudadano para Seguridad Publica y la Justicia Penal

Kidnap & Ransom

20%

Of US Companies are impacted by express kidnapping each year in Mexico

OSAC 2014 Mexico Security Survey

9%

of US Companies are impacted by kidnapping for ransom each year in Mexico

AMCHAM Business Security Survey 5th ed.

2%

are reported

105,682 abductions est in 2012

INEGI National Survey on Victimization 2013

Extortion

36%

Percent of US Companies impacted by extortion in 2013

AMCHAM Business Security Survey 5th ed.

86.8%

Occurs during business hours

INEGI National Survey on Victimization 2013

7.9%

are reported

52% do not trust the police and 47% out of fear

INEGI National Survey on Victimization 2013

Supply Chain

12%

Percent of US Companies that believe they are prepared for supply chain threats.

AMCHAM Business Security Survey 5th ed.

#1

Supply chain risks rank as main threat for US companies.

AMCHAM Business Security Survey 5th ed.

31%

Percent of US companies that were affected by cargo theft in 2013 in Mexico.

OSAC 2014 Mexico Security Survey



Supply Chain Threats

Targeted

- Surveillance
- Insider
- Kidnapping
- GPS knowledge

Opportunistic

- Moving through border of rival groups
- Checkpoints
- Higher risk of extortion
- Possible loss of truck or cargo or both

Residual

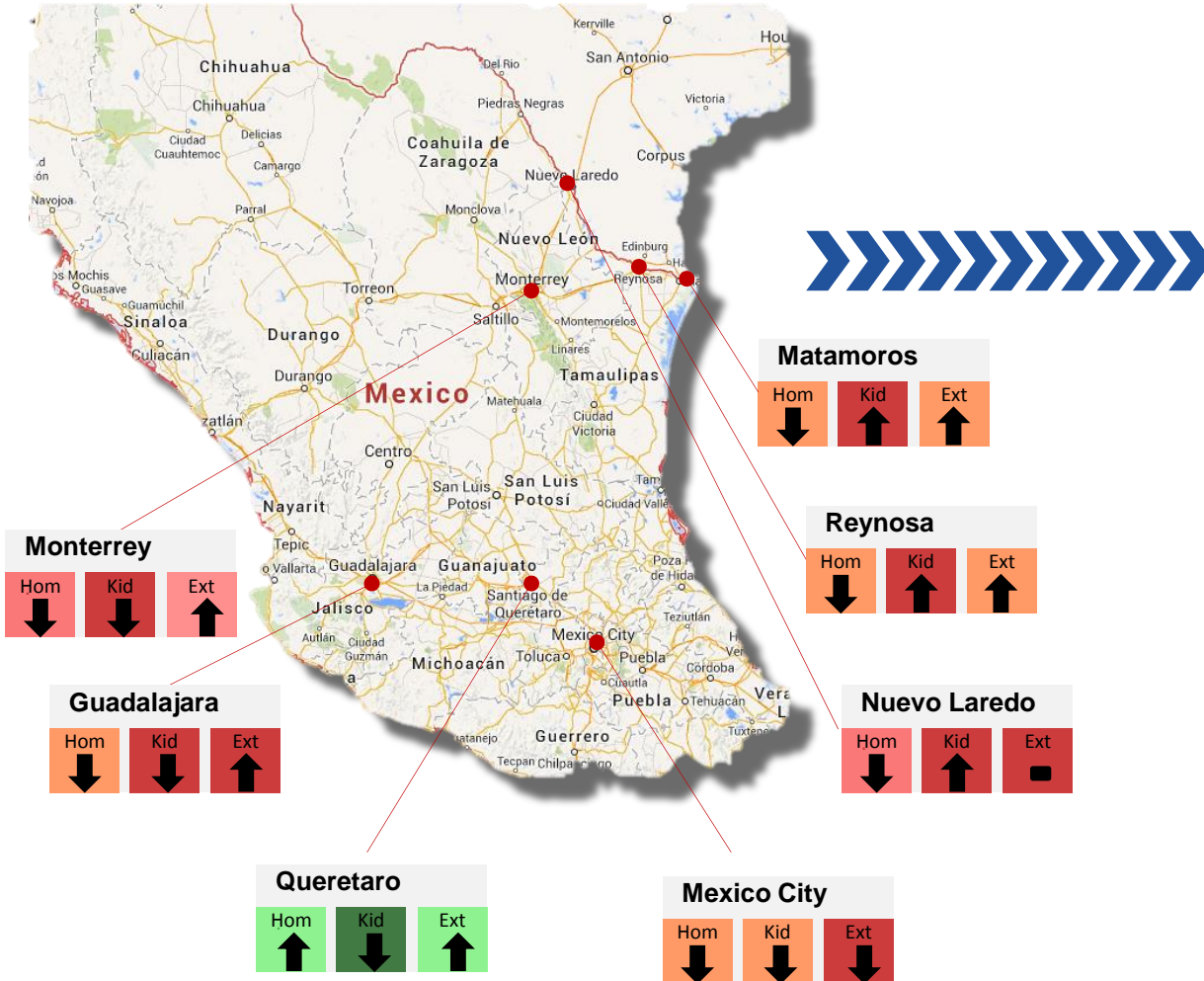
- Company is targeted
- Supply chain is visible
- It is in their “turf”
- Easy way to get to the company

Corruption

- Traffic stops
- “Improper” documentation
- Possible delay, impound or loss
- Transport schedule = recurring problem

Market Risk Modeling

Market Trends



Market Risk

Threat	Rating
Flood	XXX
Fire	XXX
Landslide	XXX
Severe Storm	XXX
Wildfire	XXX
Drought	XXX
Seismic	XXX
Tsunami	XXX
Volcanic	XXX
Epidemic	XXX
Terrorism	XXX
Tropical Storm	XXX
Crime	XXX
Violent Crime	XXX
Kidnapping	XXX
Civil Unrest	XXX
Corruption	XXX
Cargo Theft	XXX
TOTAL	XXX
Resilience	
Hotels	XXX
Hospitals	XXX
Police	XXX
Infrastructure	XXX
Airports	XXX
Fire Service	XXX
TOTAL	XXX
TOTAL RISK	XXX



Main Supply Route Risk Modeling

Route Assessment



Probabilistic Risk Assessment

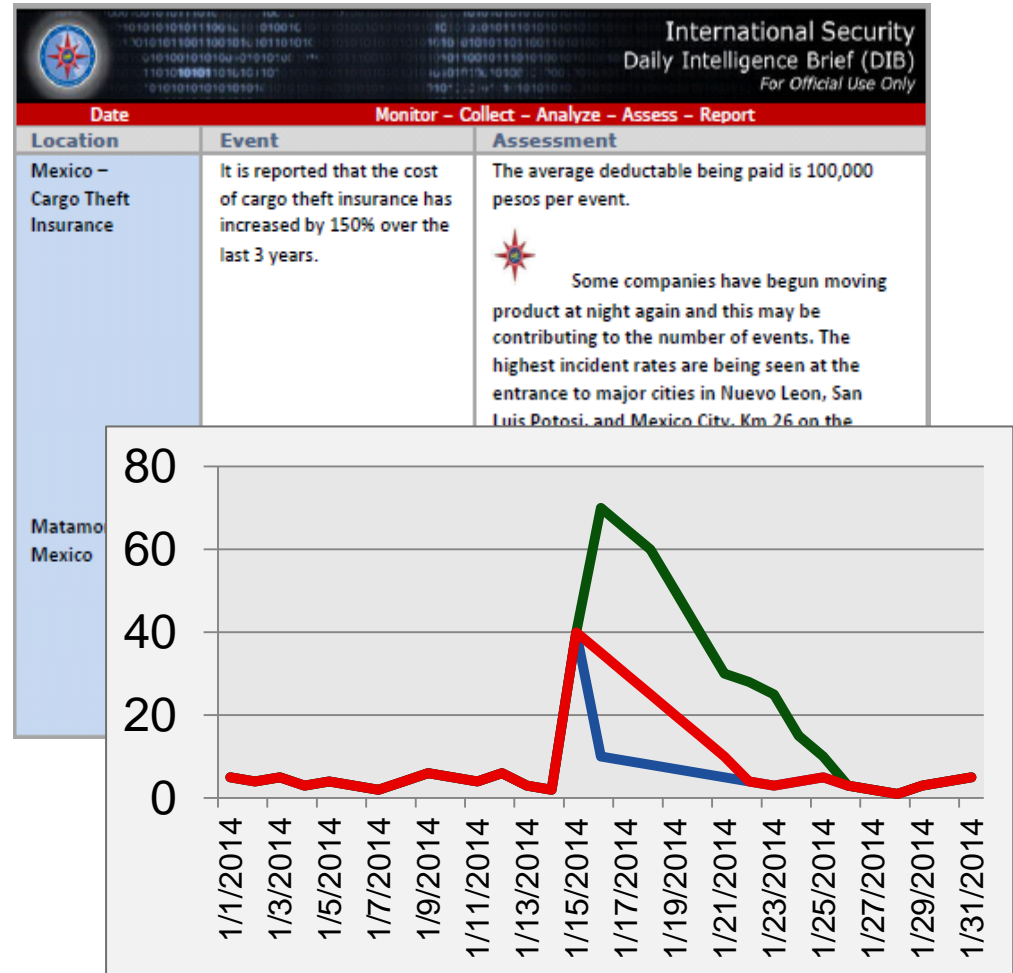
Route	Ave # of trips to experience 1 cargo theft	Ave # of trips to experience 1 traffic accident
Mty - Reynosa	XXXX	XXXX
Mty – Nuevo Laredo	XXXX	XXXX
Mty - Matamoros	XXXX	XXXX
Mty - Tampico	XXXX	XXXX
Aggregate Risks		
Cargo Theft		
1 cargo theft event	X.X	Years
Anticipated non-recoverable loss	XX	USD
Injuries per event	XX	People
Fatalities per event	XX	People
Traffic Accident		
1 traffic accident	X.X	Years
Anticipated non-recoverable loss	XX	USD
Injuries per event	XX	People
Fatalities per event	XX	People



Active Risk Modeling - “Go/No Go”

Identify Disruptions

- News Monitoring
- Social Media Monitoring
- Credibility/Validity
- Intelligence Partnerships
- Daily Intelligence Brief
- Social Media Analytics



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Questions?