

## Jefferies Consumer Conference

### Company Participants

- Stuart Haselden, CFO

### Other Participants

- Randy Konik, Analyst, Jefferies LLC

### Presentation

#### Randy Konik

Good morning, everybody. My name is Randy Konik, I cover specialty retail for Jefferies. Very pleased to have with us lululemon management, CFO Stuart Haselden and SVP of Finance Chris Tham.

Lulu has been one of our top picks this year. We upgraded it at the beginning of the year. It's been a nice mover here.

Our bottom line here: strong brand, margin improvement story, marketshare gainer. So let me turn the presentation over to Stuart and then we'll take your questions after the presentation. Thanks.

#### Stuart Haselden {BIO 17615686 <GO>}

Thanks, Randy. Great to be here. Not the worst place to have a conference.

But I'm not sure you'd get the same turnout if you did this in Midtown. But it's good to be here.

So I have some prepared remarks. We'll certainly save some time for Q&A. We'll roll through some slides and so we'll just jump into it.

Obligatory safe harbor. So the first slide here just recaps some of the headlines from the First Quarter. You know, it was a good quarter for us.

We made important progress against several of our strategic priorities and our commitments that we've made with our shareholders, in particular. Saw nice gross margin improvement as we continue on the journey of reaching a recovery or achieving a recovery in our gross margins. We realigned our inventories with our sales trend, another important effort that really began last year in the wake of the West Coast port issues.

And we saw continued momentum in the top line. So we delivered an 8 comp in the quarter, 5% store comp. We saw strength across all of our regions and we are really pleased to see our Canadian business exceeding US store comp results. Really speaks to in our most mature market where we see a very healthy business, very healthy sales and earnings growth trend.

ECommerce 18% on top of a 31% last year, 20% penetration. Really feel like we're just getting started in eCommerce.

And on the product side you know really pleased to see the continued positive momentum in our women's business. This is on the back of the innovation that we unveiled last September as part of the pant wall relaunch and have seen just a very strong trend in women's pants and some specific styles I'll make mention of in a few minutes.

And the men's business continues to be a strong performer, plus 21%. I think we mentioned on the call that was the sixth consecutive quarter of men's comps above 15%. So that's an important area of our growth story overall.

Then operations excellence. So this has hinged largely around supply chain over the last year. We've made many important improvements in building a more disciplined supply chain, which is really the underpinnings of the margin recovery that we'll deliver this year and into 2017. So really excited to see that taking shape.

And also very happy to have Ted Dagnese, our new Chief Supply Chain Officer, join us into the new role that the Company hasn't had before, really focused on bringing mature, seasoned leadership to our supply chain. So really great to have Ted as part of the leadership team.

So this slide, this next slide just recaps our growth strategies that we outlined back on the March call. And we updated our results against this on the Q1 call. But just as a refresher our plans for the next five years are to double our sales and more than double our earnings. These are the four key growth drivers that will help us deliver that.

It starts with product innovation. We are a design-led Company and the pipeline of innovation that we are building is really central to our ability to drive positive comp momentum and grow our business generally. You know, we're targeting or we have a plan rather to double our women's business at \$3 billion by 2020 and more than double our men's business to approximately a quarter of the overall Company sales results.

The other elements of the growth story that we have outlined, North American buildout we continue to optimize our positioning from our store footprint standpoint across all of our markets, both new stores and optimizations, continue to invest in our digital strategies, Miguel Almeida building a great team, 20% penetration right

now and I feel like we're just getting started. So expect to be able to achieve sales penetration above 25% over the next five years in eCommerce.

International expansion, an important part of the story, exciting momentum in both Europe and Asia. And again we're targeting to have this business approach a quarter of our sales by 2020.

So the next few slides I'm just going to drill into each of these growth strategies in a little more detail to give you some additional color around how we're seeing them come to life currently this year and how we believe this is putting us on a trajectory to achieve those five-year targets. So starting with product innovation, as I mentioned we are a design-led Company and what we've learned from the pant wall relaunch as well as what you see here, which is a shot of our Align Crop that we introduced in April, what we've learned from this experience is that when we focus on innovation we win.

This is certainly the heart of our business, the women's pants and business now delivering double-digit comps consistently since Q3. And what we take out of that is where we make investments in R&D and our whitespace technologies and innovating in fabrics and innovating in construction that continues to solve problems for athletes we're able to distinguish ourselves in the marketplace and continue to deliver value for our guests.

So I'm told that the Align Crop introduction that we did in April was the best ever Instagram video result that we had seen, over 300,000 views. That sounds like a lot to me, don't ask me what the second-best was. But suffice it to say it was successful.

This was also the first point in time where we synchronized in a bigger way brand marketing with a product introduction. And so something that we're taking forward into the balance of the year as we have meaningful product introductions, looking at how we can leverage in a more powerful way our brand communications and brand marketing around those events. So very pleased with the results that we saw with the Align Crop in April and it continues to be a strong performer into Q2.

The next growth driver as we mentioned the North American buildout. So probably the lowest beta part of the growth of strategy and it's not focused on just an arbitrary store rollout count. We shifted the conversation away from unit openings to square footage growth.

And what that does is it focuses in a very healthy way on how are we growing the footprint in each market to best meet the demand as we gauge market by market and that is with expanding our existing stores as well as opening new stores. And in several key markets this offers us the ability to really do create a more powerful expression of our men's business. So where we have stores that are constrained that really don't have the space to in a compelling way fully present the new assortment within men's we're able to create an expanded environment for our guest, oftentimes with a separate entrance.

So what you see on the slide is our newly expanded store at the Prudential Center in Boston. So this store we expanded the square footage about 30% to 4,000 square feet. We've seen comps since we opened it in April or reopened it accelerate well into the double-digit range.

So we're seeing a nice payback on that investment, an improvement in the sales potential we will deliver from this location and we are also seeing the men's penetration increase from the high teens to around 22%. So very pleased with the results. We will do seven such expansions this year where we have an increase in square footage in a store of greater than 20%.

So this becomes a meaningful part of the overall square footage growth story. And it's a way in which we take very successful stores and essentially make them more successful, capitalize on the potential that we're seeing.

Digital and the digital ecosystem that we described on our earnings call. Miguel Alameda, our head of digital, is really building an impressive team in digital. And we've already made some important advancements in the short time he's been with us to include a very successful web launch for the new website in May.

We're building a very strong and meaningful CRM strategy that will be fully implemented by the second half of the year. We've made improvements in our digital marketing efforts that have helped support the overall business trends. As we've seen some headwinds in traffic that's been an important lever we've been able to leverage to continue to deliver strong comp momentum.

And the shop app that we have made some enhancements to enables our guests not to see inventory across our store fleet. So it creates new ability for us to connect our digital business with our physical store business in a more powerful way.

So this is again we're 20% penetration and we really feel like we're just getting started. Miguel has been with us less than a year and we are really excited for the strategies that he's building. And I would suggest that some of those things I just mentioned, the website, the CRM strategies will provide support for the comp results that we see throughout 2016 as we begin to lab some of the tougher comparisons that we saw with the strong results in 2015.

International. So definitely an important part of the overall growth picture. The momentum that we're seeing both in Europe and Asia has been really exciting. And so as Laurent mentioned he had visited Asia earlier this year and we've seen some, the latest store openings in Korea and Japan have been further building our enthusiasm around the international potential.

What you see here is a shot of our first store in Seoul, Korea. We opened two showrooms in Seoul less than a year ago and both of these showrooms have exceeded our expectations, delivering a multiple of the sales that we look for on a weekly run rate in order to feel comfortable that we've reached the threshold to then

open a full-line store. So these showrooms in Seoul have been amazing and exceeded our expectations and enabled us to move up in a sequence when we would look to open the full-line stores.

And so been very pleased with the performance of the store in Seoul. And I think it only speaks to the potential that we have in other parts of Asia.

Laurent also mentioned the first showroom that we've now opened in Tokyo, which at 900 square feet it certainly fits the format or the size of a showroom. But we did spend a little more on the buildout on the look and feel of this location. It's in a beautiful part of Tokyo in Omotesando.

And it's a way we are evolving the showroom strategy and we've seen tremendous guest response there. It is a street location, it's not tucked away in and off the beaten path location as we typically do with showrooms. It's a more front and center primetime-type location. So thrilled to see the attraction that we're seeing there and what it suggests for the potential in Japan otherwise.

We are at Nantucket. So yes, then in Europe continue to see strong results in London. We have a number of high-profile locations, or three in particular, that we'll open this year as Laurent had indicated, one of which will be a shop-in-shop format with a major department store in London which really is a reflection of how we're evolving the strategy, we're looking at ways to importantly increase brand awareness in these international markets which is really an important factor to position us for success.

And so we're stretching the model. We're exploring new ways to interpret the model. And that's a good example of that.

Otherwise, we'll be talking in September, we'll be able to offer details on the other couple of locations, pretty high-profile locations that we'll have in London later this year. So very excited about that. We kind of view London as a critical market for us in Western Europe to build brand awareness that will extend into other parts of that region.

Then finally, I just wanted to recap our guidance that we had updated on the Q1 call. We had taken up the full-year revenue guidance to reflect the beat that we had in Q1. We still feel comfortable with the mid-single-digit comp guidance for the year and for Q2. And that's a reflection of the headwinds that we continue to see in-store traffic.

So it's been a choppy experience offset by strength in AUR and conversion both in our stores and website. Gross margin, we're very excited to be reaching the point where we will inflect our gross margin and, importantly, have that support and inflection in earnings growth.

So while we will have some deleverage in SG&A in the Second Quarter that will moderate into the second half of the year. But we're thrilled to reach the next important milestone in our journey which is to recover our gross margins and to begin to deliver earnings growth once again.

So the high end of this range reflects a low double-digit increase in earnings per share for the Second Quarter. We have more potential for stronger results in the second half of the year. So we're thrilled that we are now achieving many of the key milestones that we had set out in terms of continuing the top-line momentum, achieving the improvements in gross margin, realigning our inventories and now we're in a position to deliver on the next key milestone which is the resumption of earnings growth.

So with that I think we're ready to go to Q&A.

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