

ICR Conference

Company Participants

- Celeste Burgoyne, EVP of Retail
- Stuart C. Haselden, CFO and COO

Other Participants

- Matthew J. McClintock, Senior Analyst, Barclays PLC, Research Division

Presentation

Matthew J. McClintock {BIO 16452505 <GO>}

Good morning, everyone. I'm Matt McClintock, the retail hard-lines analyst at Barclays. Over the years, lululemon has become one of the most successful examples of what you can find at the ICR Conference. This company has revolutionized the athletic industry. lululemon not only found an answer to the perpetually underserved women's athletic market. But it's also shown that men, too, look for stylish, technical products, all in pursuit of an increasingly active lifestyle.

With us today from lululemon are Stuart Haselden, Chief Operating Officer; and Celeste Burgoyne, the Executive Vice President of Americas. And with that, I'll turn it over to Stuart.

Stuart C. Haselden {BIO 17615686 <GO>}

Thanks, Matt. It's great to be here; also great to bring some good news for our investors on our holiday results. We're going to start off with just a short video.

(presentation)

Great. So let's get into it. So today, we wanted to spend a little time and reacquaint you with -- I'm sorry, first, I asked Howard to kind of read this. But he wouldn't do it. So I'll let you guys handle that. We want to reacquaint you with our long-term growth vision and goals. And I'd like to mention that as I was traveling to the conference today, I was thinking back over the last three years, my third ICR Conference and just reflecting on all the investments that we've made in the business, in the infrastructure, particularly in supply chain, technology and other areas to help enable our growth strategies. It's significant. You think about the inventory rebalancing in 2015, the gross margin recovery in 2016 and now the digital acceleration in 2017, we are well positioned to deliver on the growth objectives that we've set out.

And so today, we're going to drill into a few of these and just wanted to start with this first slide, just level setting on what we're shooting for, 2020 to achieve \$4 billion in revenue. And you see some of the highlights of the growth strategies that will enable us to achieve that number. Men's, exciting momentum in men's. We're targeting to reach \$1 billion by 2020 or about 25% of the total business. I'll spend a little more time on men's momentarily. E-commerce, a lot of great work this year in our digital business. We're expecting this to reach 25% of our total sales by 2020. This is certainly not the height of our aspirations. And we see our e-commerce business easily exceeding more than 30% ultimately as we continue to advance on our agenda there. In international, a lot exciting momentum, particularly in our Asia business. We're being pulled into markets now throughout China and other parts of Asia. Again, we see this -- Asia in combination with Europe, approaching \$1 billion or 1/4 of the business by 2020.

What's not on the slide that is important to note is our North American business continues to deliver consistent growth and continue to be inspired by our store teams and their innovation of our store formats as well as our community activations. We're going to hear from Celeste in a little bit about what's some of the agenda that we have in our North American businesses. And so -- and the last thing I'll mention, also not on the slide. This is very important to our -- or foundational to our growth is our product innovation. So underpinning all of our strategies is a focus on delivering technical innovation that matters to our guests. And that's really where we start.

So men's. So when we put the presentation together, I asked Howard, I said, "Let's keep the slide simple. Let's not have too many numbers on the slides." And so Howard, you nailed it on this one. So really excited for our men's business. 18% increase in Q3, 26% increase in our men's pants business. And as we mentioned on the Q3 call, we saw our ABC franchise double in the Third Quarter.

One of the things within our men's business that's noteworthy that we wanted to touch on was our Strength To Be brand campaign. The first brand campaign we've done for men's, really the second chapter of our This Is Yoga brand campaign that we did earlier in the year. Really pleased with how this performed. We saw 45 million media impressions. We saw a 21% increase in the number of male guests shopping with us in the Third Quarter. And it's really an important part of how we're driving awareness and consideration for our men's business.

What you're going to see in the -- in 2018 for us, specifically in our men's business, is a continued cadence of brand stories that is specifically aimed at driving awareness and consideration as we shift from being considered just a women's business to a dual-gender brand. You'll see this complemented by tactical -- improvements in our tactical product stories as we leverage our CRM capabilities across both men's and women's. This is really a new muscle for the company. Our community strategy remains the primary means by which we acquire new guests and retain them. But brand marketing is a new muscle that we've been developing to complement that community strategy.

Digital. So a very healthy 25% increase in our digital business in the Third Quarter. We saw double-digit increases in traffic and conversion, which I'm pleased to say are continuing into the Fourth Quarter -- have continued into the Fourth Quarter through holiday. The performance in the Third Quarter also did not benefit from the new website that we launched at the end of October. We've been working on improving our digital business throughout the year, focused on all aspects, people, process and technology. And the improvements that we saw -- the results that we saw in the Third Quarter are really attributable to the process improvements that we've made internally of how we -- our teams work together more collaboratively, visual merchandising improvements in our online assortment and improvements in our photography. So really excited for what's in the future for us with our digital business.

International. And as I mentioned in my opening remarks, really excited to see the momentum in China, in particular. And throughout Asia. Very healthy comps. These are some statistics that you see listed here that we mentioned on the Q3 call. We also mentioned, for example, our Tmall business on Singles' Day tripled from about 750,000 last year to over 3 million this past year, just to give some idea of the explosive growth that is possible in Asia. So super excited about enabling our teams in that region. We're also excited about Europe. And we've seen a little slower growth there. But as you can see, 40% market growth in the Third Quarter. We're pleased with how that's tracking and the new opportunities that we have in front of us there.

And just a few images here. You can see our Regent Street store that opened I think late '16, yes, right before holiday in 2016. Really pleased with -- actually, I think it was actually Q1 of '17. But regardless, great store, a brand beacon for us in Western Europe and I'm sure you should definitely visit on your travels to London. And Munich, another important opening for us in Germany. And I was actually able to attend that opening. It's an important step for us to expand the growth story beyond U.K.. And we're pleased with how that store is tracking. And Unroll China, a great example of how we are driving awareness in our international regions. That event had 10,000 live participants, 150,000 online participants, over 2 million media impressions and just a great example of how we're driving awareness.

And now I'm going to turn it over to Celeste to speak to North America.

Celeste Burgoyne {BIO 20012334 <GO>}

Thanks, Stuart. So I've been with lululemon for over 11 years. And it's pretty fine to be able to sit here today and have 325 stores as of Q3 operating in North America and still see so much growth potential. I remember arguing 11 years ago with thinking it could potentially be 350 stores. So really fun to see what innovation has done. And now we're at a healthy store base, a great digital base and we see a positive future.

I'm going to talk to you about 4 key components that I'm really focused at as we look at North America. The first is agile store footprint. So basically, brick-and-mortar, there's a conversation about what is the future brick-and-mortar. And we really see

continued opportunity in store footprint. And the way we're looking at it is, over three years ago -- or three years ago, we had one store footprint. It was a 3,000 square-foot box. It looked the same everywhere. As we opened new stores, it looked exactly the same as the store before.

Today, I'm really excited to be standing here with 3 new store types. So basically, today, the way we look at store growth is we have a co-located store type, which is an expanded store type. We opened 12 this year. They're 5,000 to 6,000 square feet. They really allow us to present men's in a way that we haven't been able to before. I just spent the week before Christmas visiting some of them. I was in Cherry Creek. We had 70% square footage growth and almost 70% growth in men's alone. So again, really excited to see what these colo stores can do for us as we move into the next future and really focus on men's.

We've also dove into a local strategy, which is a smaller concept, 1,000 to 2,000 square feet. And it's allowing us to densify in places that we didn't think we could go before. And we are now in Downtown Detroit, on downtown Houston, Bend, Oregon, Fort Collins and seen a really great community experience created as well as revenue that is above our expectations.

Then agility when it comes to brick-and-mortar is really important today. This holiday, we opened up 22 seasonal stores. So 22 stores that will operate in key markets and key centers from November, December and January. These are markets where we potentially had 1 store or no store prior. And again, really excited about this opportunity for us. And it allows us to grow in a really healthy way, seeing really good new guest acquisitions specifically. These stores trended almost 50% new guest acquisition and really allow us to show up for our guests in holiday in a really special way.

The second focus of us is obviously digital. So Stuart spoke to how happy we are with our current digital business. We had a new site release that came end of October. The site release really focused at this point on 4 key things. The first was the mobile experience and optimizing that experience. We've seen traffic on mobile continue to increase. And our conversion has taken pace in a really great rate. 60% traffic conversion and 30% comp conversion on mobile since the site release.

We're also focused on the new content strategy, product details and features in education online that we haven't been able to have before. And technically, we are able to decouple the front end and the back end of our e-commerce platform in order to allow us to have agile teams that can continue to support and innovate as our business continues. We see low-hanging fruit on digital in terms of different key teams, personalization being a big focus for us into 2018.

I would say that the most important thing that we do every day is our focus on the guests. It's really what gets us up in the morning. And we obviously talked about stores and we talked about e-comm. But our ability to bring them together with an omnichannel focus is really what is the most exciting to me today. BBR, which is our

endless IL app is our highest-comping channel in North America. It shows our agility and our opportunity for our educators to really adapt to new technology. Ship-from-store is currently in 150 stores in North America. And we're going to continue that roll-out into 2018. Due to our RFID capability, we also have less than 1% cancellations, which is really huge and again, just serves for a much, much improved guest experience. Then buy online, pick up in-store will show up guests we've seen on second half of 2018. We also, obviously, when we look at omnichannel, really look to leverage our educators and our store base in a really powerful way. And through this, we'll also launch a new comp plan that will allow our educators to really own their entire business in an entrepreneurial way and we know will create more upside.

Then the last thing. And Stuart spoke to this, I've been here for 11 years. And I would say the heart of lululemon has always been our community. And it will continue to be community. This year, we've done some really cool things from a community perspective. We sponsored our first 10K. It's our first running event outside of SeaWheeze in Toronto. We sold out, for the first time that, that event has been put on, 5,000 guests plus in Toronto, spent the Saturday before Father's Day running an event with us. A really, really good turnout. We held packaged pickup in our stores. It was a great event from social. And being there is something that will continue.

We also did the Ghost Race in October. We had 15,000 participants in 15 cities across North America. And that's an example of our ability to really leverage community on a bigger scale. And we'll continue to push on that. Currently, we're launching the Strava 40/80 Challenge. We did a residency in L.A. We did our Taryn Toomey collection. We did an activation in the Hamptons with full cycle below the barn, which was a really fun way for us to show up in a place that we hadn't before. And most importantly, our stores really just get to own these relationships with their ambassadors and create what's needed in every local community along the way.

Stuart C. Haselden {BIO 17615686 <GO>}

Okay. Just to touch briefly on a few -- on the financial highlights. So Third Quarter was a strong quarter. We saw revenue -- total revenue increased 14%. We saw our gross profit rate -- gross margin rate increase 110 basis points. And that, connected to an operating income expansion of about 30 basis points from -- offset by SG&A. Earnings per share increased 19%. So really happy to see our earnings trajectory faster than our top line trajectory.

So the -- as we look to the balance sheet, you can also note that strong cash position. We have now completed the prior \$100 million share repurchase plan. We now have a new authorization for a new \$200 million authorization share repurchase plan. 0 debt on the balance sheet. And inventory's well balanced with our top line momentum.

Then just briefly on the Q4 guidance. And this includes the update that we provided earlier in the press release this morning. You can see that we're now on pace to deliver a high single-digit comp. And we're seeing very strong e-commerce results as well as store results that is supporting that number. Store traffic, we've seen

continued to be very strong, as we had indicated on the Q3 call, positive in the U.S. from much of the Fourth Quarter. And that connects to the revenue range that we've now updated and an EPS range that now sits about \$0.05 on the top end above the prior estimate.

So we're pleased to be able to bring this news to our investors. And we're pleased to see the momentum in our business continuing now through the Fourth Quarter. With that, we thank you.

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