

## Analyst Day

### Company Participants

- Calvin McDonald, Chief Executive Officer, Director
- Celeste Burgoyne, Executive Vice President, Americas Retail
- Howard Tubin, Vice President of Investor Relations
- PJ Guido, Chief Financial Officer
- Stuart Haselden, Chief Operating Officer & Executive Vice President of International
- Sun Choe, Chief Product Officer
- Unidentified Speaker

### Other Participants

- Jamie Merriman, Analyst, Bernstein
- Jay Sole, Analyst, UBS
- Kimberly Greenberger, Analyst, Morgan Stanley
- Mark Altschwager, Analyst, Robert W. Baird
- Matt McClintock, Analyst, Barclays
- Michael Binetti, Analyst, Credit Suisse
- Rafe Jadrosich, Analyst, Bofa Merrill Lynch
- Rebecca Duval, Analyst, BlueFin Research
- Robert Drbul, Analyst, Guggenheim Securities
- Simeon Siegel, Analyst, Nomura Instinet
- Unidentified Participant

### Presentation

#### Operator

Guys, we appreciate you being here. Obviously, we are really excited to present you our five year vision today. We are happy you could make it here in person. Thank you for joining on the webcast if you aren't here in person. And we'll get started in a couple of minutes.

I'm just going to give you the logistics for the day, and then we'll kick it off. We've got two sessions planned, let's say, a morning session and an afternoon session. And we'll -- we're trying to get you guys out of here by 2:30, 2:45, that's sort of the plan for the day. We will -- let's just get this out of the way first. Okay. Did you all saw it? It doesn't want to -- okay, good. And let's get this out of the way. If you (inaudible) the

restroom, you go out that door and you'll make a right, you go down the hall to the right of the elevator.

So now the content. So we're going to -- Calvin's going to kick it off in a couple of minutes. He's going to take you through our five year vision. After Calvin comes up, Sun Choe, our Chief Product Officer, will come up and take you through our product vision and our -- and talk to you about our innovation. After Sun, Celeste Burgoyne, our EVP of Americas and Global Guest Innovation will take you through our opportunities in North America and our omni guest experience. Then we've got Stuart Haselden, our COO and EVP International, will come up and take you through our international opportunity.

After that, we'll take a break for lunch. Lunch is going to be downstairs in the room, where the product activations were. So we'll go down one flight of stairs. It'll be casual, we'll have members of our senior team down there, so you can chat with them during lunch. Lunch will be about an hour, so we'd love you'd be back in your seats up here at 1:10 so we could start the afternoon session.

In the afternoon session, Stuart will come back, kick it off, take you through our enterprise fitness. PJ Guido, our CFO, will take you through all the numbers I'm sure you're waiting to hear. After that, we'll do a Q&A and then Calvin will wrap the day up. And like I said, we'll have you guys out of here by 2:45.

So we are going to get started. I'm going to show you a quick video, highlights from 2018. And then, Calvin will take the stage.

(Video Presentation)

### **Calvin McDonald** {BIO 16657186 <GO>}

Okay. Morning, everyone. How did you find that morning? It's always good to start off with product, isn't it?

I thought the team did a great job. We really wanted to showcase for you our approach to innovation, science of feel, which I know I and Sun will talk a little bit more, share a little bit into Tom's world, in the white space and what they've been up to, and then with what is some of the exciting Pinnacle product that the team's bringing in that just adds a little bit of that sizzle to the overall assortment that we offer our guests. And I know, as a leadership team, we're super-excited to have everybody here today, the opportunity to share what we've been co-creating for the last few months and set the course for the next five years.

What I wanted to start off is, really it's now been almost nine months since I joined Lululemon, and I've been traveling to countries, to markets, really getting out and wanting to learn the culture of this incredible organization. And with that is really meeting individuals, being curious, finding out what's on their minds and sharing quite frankly what's on my mind. And in those discussions really helping to sort of

collaborate and solidify the opportunities as we think about our future. And the one word that just kept resonating for me in almost every interaction in any market I went into was the opportunity that still rests ahead for Lululemon in both North America, in any international market, in our stores, across the entire organization. It really was exciting. Just think of where we are, where we've come, from the momentum we have in the business, you get the opportunity that lies ahead.

And what I wanted to do today is kick off and really share some of the thoughts that I accumulated along that journey, so what are the strengths of Lululemon and what are the opportunities. Now, I'm not going to talk to you about the strengths of Lululemon in great detail because everybody in this room well-versed on what has driven the success. There are a few that I want to highlight that I think were unique and interesting to me from being a guest of Lululemon for 20 years to then joining the organization and being on the inside and really gaining an appreciation for how we do things and the magic, if you like, behind what the guest sees. So I will take a moment to pause and share a bit of those. But really I want to talk about the opportunities that are setting up how we're thinking and moving forward.

Initially, I'll talk about product innovation, guest relationship, brand loyalty, our channel agility and the people and culture within Lululemon. From a product innovation perspective, there are really two exciting strengths that differentiate us from almost anybody else within this space. And the first you heard a little bit about that this morning and I would say you probably heard it for the first time because although it has been our approach to how we've innovated, and that is the science of field. That is really thinking of the connection of minds and body and how what the athlete wears, how that plays with how they feel, and depending upon what activity they are doing, how they want to feel is very different. And how we can innovate into that be it either through temperature, movement, touch is really critical and very unique. And I think a really differentiated point of view of how we are thinking about not just the fabrics, the touching which those fabrics provide the athlete and then combine with our unique function and aesthetic is a big part of the strength and what drives the product and obviously what the guest responds and resonates with. And the other is our approach to fabric innovation.

Now, similar to other industries, technology being one that's probably similar to this, we are constantly building and ideating and innovating off of the platforms of the fabrics we have today, meaning we are already working on version 3.0 for fabric that is on a garment today that is responding well and knowing that we want to continue to bring even further innovation, further touch, that again, the science of feel, how we want that fabric to perform for the athlete. And if you think of over the 20 years where the business started with Luon and where we are today, I mean, that incredible fabric that gave birth and started Lululemon 20 years ago today has been almost completely replaced with new fabrications, be it Nulu, Nulux or Everlux, and why? It's because we are constantly thinking and ideating and bringing out new versions.

And the benefit to that -- the benefit to that is, even with the success that we have in our women's bottoms, the reason they continue to sell and continue to sell year-in

and year-out is because we are bringing new innovation that's encouraging and giving reason for the guest to replace, to continue to buy and engage in that very important and powerful item that we have within our women's assortment because we are constantly innovating and pushing it forward.

But the areas of opportunity that we have around our product innovation is as powerful as our women's bottoms are, using that as an anchorage. We know that that is the number one vehicle in which we see new guest acquisition. We know it's the number one item that our loyal guests love to continue to connect and then buy year-in and year-out. But when you look at that and then think about the ratios that we have of our bottoms to our tops or to other items in which that guest that's loyal to Lululemon purchases throughout the year within their wardrobe for their sweat activity, we have an opportunity to drive more leveraging that relationship into other areas of their wardrobe.

Our assortment. You heard today we are always going to be rooted in athletic wear. We are athletes designing for athletes, and our technical performance is what we are focused on and how we want to deliver solutions. And performance will always be in trend. However, when you think of the three key categories that Sun talked about, the yoga, train and run, we have opportunity to round out that assortment.

We're good in run, we're not great in run. If you're a runner in the room, there is product if you love Lululemon that you can't get from us today. The opportunity the team has dialed in is we can round out that assortment. We have you hooked on one garment. How do we get you hooked on other garments? How do we continue to build upon the fact that Lululemon is the destination for not just yoga, where we have a strong positioning today and we'll continue to innovate and see -- continue ways in which we can improve both what we offer today and round out that assortment, but as we get into train, as we get into run, as we look at other sweat activities in which our loyal guests do, how do we make sure that we have the assortment for them?

Because we know they love the brand, they love the unique point of view we have through science of feel. Let's make sure that we have the full assortment for how they choose to sweat today. Big opportunity, and obviously, men's is included in that.

And the final opportunity is how we flow and showcase the breadth of our assortments today. We know that the guest is highly engaged. I'll share those numbers with you. And there are certain categories like outerwear that that guests shop differently. They want to understand the full breadth of assortment, they want to be able to showcase and see it to make that buying decision. And when they make that buying decision is very different on a seasonal basis than some others.

How we today flow our product, how we today represent and showcase the incredible assortment that the merchants and the designers have put together is an opportunity that we have as we want to continue to look at expanding and building our business in these key critical categories where we've seen success. And we know

we can be more successful. Flow and breadth and showcasing that is a big opportunity for us to do that.

And then when we just step back and look at what's happening in the market around us, right, we know what our strengths are, we know what our opportunities are. But what's happening in the industry, what's exciting is that we know the market trend of consumers choosing versatile products that enable them to live the life that they want to live plays right in to who we are as a brand, designed for, used for, all right? We have very versatile product. We have product that can cross sweat activities, to and from the studio; lots of opportunity building upon our strengths and playing to the trend that's happening in the marketplace and therefore resonating with the guests as they look to a brand that delivers upon what they're looking for.

Secondly, guest relationships. Last year, we had over 7 million guests shop Lululemon -- shop Lululemon. These are active guests shopping within the year. And we have a 92% high-value guest retention. Now, high value guest retention are top 20% spenders. So our guests that spend the 20% -- top 20% have a 92% engagement. That is very high. When you compare that to other brands, that is very high.

What that tells you is our most loyal and incredibly loyal, and the opportunity for us to build upon that, to continue to nurture those relationships. And as you think about what I just talked on product, to build on that retention and that loyalty engagement, is a big exciting opportunity, and, in our communities, a huge strength of ours. We have over 2,000 ambassadors around the globe. We have over 15,000 legacy ambassadors. As you know, typical Ambassador Program is a two-year journey with us. But we maintain those relationships: 17,000. We have over 12,000 educators that are anchoring our community. This is where that guest relationship truly comes to life connected; big strength of ours. But when we look at opportunities, as much as we have a highly engaged loyal guest, we're excited about the opportunity that we can do even more to expand that share of wallet, and a lot of that goes back to the product that we offer today, the assortment, the range and the ability that when our loyal guest who loves the brand, who loves us potentially because they do practice yoga and/or another activity how do we build upon that.

Our global community, I mentioned we have 2,000 ambassadors, 15,000 legacy ambassadors and they have been built at the grassroot level, which is so cool, it's so authentic. But the opportunity to take that and build upon it and build it up also to a global community, leveraging our global ambassadors, but also connecting leveraging the world of digital, so that, community that I know within my local store is also connected to that global community across the total Lululemon universe is a huge opportunity for us, which leads to the next opportunity which is therefore how do we really maximize the power that these individuals have to influence, the guests to influence the fact that they play a part in product design and innovation. They play a part in living and wearing Lululemon to sweat in, and they have a point of view on product, then they have a point of view on a lot of what Lululemon stands for, how do we make sure that building on that global community and giving them a voice,

that is a huge opportunity for us to scale that we think is truly unique and differentiates us from so many others.

And when you step back and look at, what's the trend that's happening in the marketplace. We know that consumers want to participate in communities, with people who share their passions. Again, this is a trend that's happening. It works well and I think really resonates and connects with who Lululemon is, what our strengths are and equally what our opportunities are to do even more in and around that.

Brand loyalty. We have a very strong net promoter score with our guests of 83. Big piece of that is obviously driven through the connection that they have with the educators, but also through the fact that, yes, they connect, yes, they love to come into our retail environment and channel, but we've been a company that has hosted and created events that really brings the soul of the brand to life and allows our guests to interact with us in a way in which they can't interact with most other brands, an intimacy, the kinship with those that share equal values. We host over 4,000 events on an annual basis. Now that's a combination from the pinnacle event that you've seen at SeaWheeze to getting into some of our 5K 10K races that we've been hosting, getting into our virtual run races that we put on and STRAVA which I think is so cool, unique. But it is also the local events that are happening at the store level, being able to pop in on the Sunday for other meditation or yoga that our educators are putting on. A number of these really driving and translating into that brand loyalty. But even with that, the opportunities we have is our brand awareness.

In particular with men, we have very low brand awareness with men. The opportunity to just be known and therefore to have them consider us, to choose us, to see the product in the assortments that we offer them for their needs within both sweat and to and from is significant. But also brand awareness, but also being understood, who is Lululemon, what does it stand for, why is it different, what does it mean by the science of feel and why is it the right brand for me. Huge opportunity and exciting for us to build upon obviously where we are today which is a large pool of guests that have a big net promoter score that are highly engaged and love the brand.

Experiential loyalty, we're late to the loyalty game. Probably one of the last large retailers that don't have and we're not going to show up to the party with a discount card. We've talked about that and we've been testing and piloting. One of our big opportunities when we think about where we want to go, how do we bring in a loyalty program that is unique and different is really thinking of loyalty through the lens of an experiential loyalty program that it builds upon the brand, that it builds upon this notion of community, that it pulls people together and adds loyalty to the brand, really exciting.

And then finally, the notion of events. We run 4,000; we run a ton of exciting events, how do we host and think about running more coveted events across more markets and have it broad enough that it really captures both the sweat activity but the mindful activity and the whole human that you heard Tom talk about but which is a trend that's happening in the marketplace.

We know that through SeaWheeze which sells out in ours or our five 10K that sell out in hours and when we host them and we offer both yoga, we offer both immersions and mindful of meditation and then into the activity of the five and the 10K and have a celebration that guests love the balance of what that is and we are well-positioned to offer and do more of those and by offering and doing those combined with experiential loyalty, not only is it going to drive our awareness but the opportunities to drive that love and loyalty to Lululemon in general, and do it in a way that is so unique and different because you're not buying it, you're truly creating it in a sincere authentic way.

And what's happening in the industry, around loyalty is consumers are responding to experiences at faster and enable human connections. Again, that's the trend that's happening. Exciting as that trend completely resonates and is at the center of what we do well and the opportunity that we have to do even more.

Channel agility. We have over 46% international revenue growth last year. We have a 26% digital penetration. Our store base is incredibly agile from seasonal stores to the size, up to some of the stores that you'll be hearing about that we're testing and learning. So we have the ability to penetrate markets. We have the ability to grow both physical and online retail and to take our brand and to take our position, to take our position of what lululemon is into other markets and see that it is resonating and is doing well from a performance basis is incredibly exciting. But we have opportunity.

A lot of the assortment that you've seen today, how we think of our store size and rightsizing the stores so that we both maintain the productivity of the doors, maintain the economics of the doors but show the breadth of the assortment and create the experience that we want that is supporting the overall positioning of the brand is an opportunity for us. Our digital ecosystem. We are doing incredibly well online. Danny, Celeste and the team, a fantastic job building the foundation. You'll hear more from her later on what we're continuing. But the opportunity is and we know that to bring the soul and the feel that you have within the store, this notion of connection to the educator and the community. How do we bring that to our online community and create an ecosystem that's not just connected to the store and not just through the flow of goods, through buy online, pick up in-store. Yes, we're testing; yes, we're going to roll that out. But what I'm talking about in terms of an opportunity is to really connect and create a connection between what makes lululemon different and how our digital app and our digital online site creates that universe.

And then China, being a big opportunity for us, a huge opportunity and Stuart will talk more about that. So again, strength, but really exciting opportunities. And when we look to the market, what is the trend that's happening? Consumers are expecting convenient digital solutions that create personalized experiences. So where we are in digital is well positioned. Where we want to go and the ability of our brand to speak to the guest in a broader way than just a transactional relationship that we can have an emotional relationship with them, that we can leverage this to bring the brand of lululemon to life and the connection to the community and everything

we're doing is super exciting and it fits completely with the trend that's happening and how they're interacting and using the device to interact with brands.

And then finally, people and culture. One of our strengths is we do obsess and are focused on developing people within our culture. It's one of the reasons why employees come to Lululemon is one of the main reasons why people stay at Lululemon and it's one of the things that really differentiates this culture, and our investment and our people and our teams beyond what most others do. And it's why in an internal employee survey score 94% of employees would recommend Lululemon is a great place to work.

So we respect and appreciate the culture that we have. The engagement that we have in our employees, and you just got to walk into our stores and know that, that vibe, that feeling and that authenticity is very different than most other retailers. And in retail it's not easy to create, and it's done through a true sincere focus in investment and culture. But with that we know we can do more, the opportunities are always for us. We know it's one of our greatest strengths, we're going to continue to invest in it, we're proud of what we achieved last year with pay equity in 2018, we're proud of what we launched this year around parenthood taking leadership position in the industry, but we know we can do more. And the opportunity is for us to just continue to think about how do we lead the industry in creating and nurturing the culture that we know, build, supports the brand and drives the performance.

As well as our impact agenda. Impact being how we view both social and sustainability efforts within the organization. We're proud of the work we've done around here to be on our social side of the business, we know we can do more and we know we can do more in sustainability, those are exciting opportunities. Why? Because the market trend that's happening is consumers are engaging with authentic purpose driven brands. I believe that's why we're seeing success with a lot of GENZs and the young generation today is because we are a purpose driven brand. We do believe in having an impact greater than, and it resonates both through our educators through to our guests, but we know we can do more.

So when you sit back and look at all the strengths that we have. What's exciting to me is that the opportunities outnumber our strengths two to one. So we have great momentum in this business. We have an opportunity to do even more, and the trends that are happening in the industry are creating that tailwind that are helping us, it's not just one trend in the industry, it's not a fashion trend, it's not about casual Fridays that's driving this business.

What's driving this business is a multiple number of trends that are core to how guests and consumers are thinking and choosing brands today. And there's multiple that line up with who we are in authentic way that tap into who we are as strengths, but also we are well aware of the opportunities we have to continue to fuel that path going forward.



When we look at our 2018, it was an incredible year. Great results, balanced growth across multiple levers, very healthy new guest acquisition, very healthy loyal guest interaction in driving growth, healthy across all channels, healthy across all markets, healthy across all categories. The business is balanced coming out of a very incredible year and I think that's a reflection when we look to the opportunities ahead, we're not just dependent on one driver of growth, one market of growth, it's diverse, it's balanced, a lot is resonating, most is resonating and we see huge opportunity to continue to drive and build that forward.

In addition to start 2019, we're very happy with the results and momentum that we're seeing in the business and we'll share more with you in June when we share our quarter one results. Coming out of 2018, we're delivering our 2020 plan early. So we knew it was time for us to look boldly into our future and to reset where we want to go. And we really are in the early innings of our full potential, even as successful as 2018 was, even after 20 years, myself and this leadership team and the entire organization is energized with the potential ahead, energized with the opportunities of building off of our strengths and energized with the vision that we shared and co created as a leadership team just early this year shared with the entire organization back in February which I'll now share with you today.

So the vision to achieve that full potential, to unleash the full potential within every one of us which is why we do what we do, but even as an organization, how do we unlock that full potential, what we want to create over the next five years is we will be experiential brand that ignites a community of people living the Sweatlife to sweat grow and connect.

Now what does that mean? An experiential brand. We're not just an apparel retailer, we're not just a retailer, we have an opportunity when we think of experiences to create experience in a store, outside of the store, within the community to continue rooted in product, to deliver solutions to the guests, to deliver experiences that build upon that product that build upon that loyalty and love that create the connection of the community. To really ignite that community of people living what we call the Sweatlife. The Sweatlife is really that balanced approach to how people today choose to live their life which is physical health, mental health and the importance of connecting to those around you. We refer to that through sweat grow and connect, but it really is a philosophy and a positioning that we see happening in the trend that we see we are well-positioned, the brand is authentic and it is rooted in product, rooted in our guest loyalty and what we want to create with experiences and creates a wonderful opportunity for growth in areas in which we can continue to innovate, develop into as an organization, and build forward as we go through to 2023 and beyond.

So sweat is obviously the physical challenge that pushes us past our boundaries. That's the heritage of the brand. It has been, it always will be, it's going to be rooted for athletes designed by athletes. These are the activities in which our guests we go out and sweat every day. One of the advantages of this brand of Lululemon is we're versatile. Yes, we're rooted in yoga, but what we want to do is take the practice the mindfulness within yoga to the other activities in which people sweat. So, if you're a

runner and you don't do yoga, Lululemon is still the brand for you. We are really focused here on the physical activity of sweat and how that guest is choosing to have that physical challenge.

Grow. Grow is the interesting emerging area of the practice of personal development of becoming one's best self. We're seeing that through meditation, we're seeing that through mindfulness, the opportunity around restoration and recovery, rests in here for the athlete. There's a lot of opportunity for Lululemon in the brand, both through product and services to think about how we can show up in an authentic way within this again to round out that notion of the Sweatlife.

And then thirdly, creating the bonds, with others to build something bigger than we can alone. It's resonating with the trend that's happening, that's resonating with how guests are looking to connect with others within their communities again, and it's very authentic to the brand. So the Sweatlife is how we've referred to it internally. We're working and we'll be bringing it sort of guest facing in the coming months. But I think instead of -- just sort of talking about what is it you really mean by the Sweatlife. I thought I'd show a quick video to really help represent, what do we mean by the Sweatlife, and what do we mean by Lululemon.

Play the video and when we defined and sort of co-created the vision of where we want to go, when we look at the greater opportunity that the sweat life creates for us and our future, what it does do is it helps us shape not just the size of the addressable market, but also redefine in terms of the potential. So it's bigger than just the apparel market. It's bigger than just the global sports apparel market. And when we think of the adjacent product categories and I'll talk about the core today where we're expanding and what we see is new, but also it opens up some interesting other categories, be at services that we can look to, tapping into, but it's absolutely the greater opportunity the sweat life is that it is a \$3 trillion global marketplace which Lululemon has an authentic point of view, an authentic voice and an opportunity to continue to lead, continue to innovate into and represents the brand, provide guests with solutions and experiences in which they're looking to live their life.

To our five year growth plan, PJ will take you through numbers in much greater detail. But the highlights are over the next five years, 2018 to 2023 or 2019 to 2023, we're going to see revenue growth of low teens, gross margin expansion, modest expansion, SG&A, modest leverage and EPS growth that's greater than revenue growth and how we're going to achieve that is we're really focused our five year plan and what we're calling the Power Of Three. These are going to be the primary growth pillars that are driving the business, driving the focus and the clarity across the organization and we are investing our resources and prioritizing to achieve the growth. Three pillars are innovative products, omni guest experiences and expand our markets through innovative products.

The elasticity of our brand, opens up a lot of opportunity for us. Equally, what we know is that our core assortment plus the assortment that we can continue to expand offers a significant amount of opportunity. And then we have new categories that

were not even in today. What you'll hear from us on later, when we sit and look at our innovative products, it continues to be how do we build upon our core? How do we expand the categories that we're in today, but we know we can round out our assortment, build a stronger assortment and drive even a greater share and then build into new. So when you think of expanding categories, bras, outerwear, two great examples, but you saw from Tom in Whitespace is a really unique creative exciting way in which not only as we round out our assortment, which we have been doing and the team is continuing to do, but we have the ability through the sensor to create an experience and a service in which we can connect the gas to the right broad based on the activity that she is looking to perform. That's really unique and that's taking a category that we're in today and it is pushing it forward. It is driving even more growth out of it.

So I know we talk a lot about new, what's going to be the new category. There is a ton of opportunity in our core, there's lots of opportunity in the current categories we're in to expand not just our assortment, but expand the guest experience to drive greater loyalty engagement and sales and new. And with new, we're going to continue to test and learn. But we're going to take a disciplined approach over the next five years to the categories that we get into, how we test and learn, how we make them part of the core and how we continue to build out. Couple of categories that we've tested and learned from self care, test and learned and you'll hear more, we are expanding this year. Footwear, we tested and we learned a lot on footwear and what we learned is the guest resonates with us selling footwear. We've identified Whitespace that we can create within the footwear category, and we will be in footwear. More to come on that later this year.

And what's exciting when you compare these potentials and opportunities to the five-year financial model is that, it is not heavily dependent on new. So, our low-teen guidance for revenue is based on building up the core, building up the expand, it is not aggressive on new, as we test and learn, as we build into these categories, those will be incremental to the model that we shared with you.

And as the primary driver, men's business within the five-year will double. Women's will still grow at a low-double digit. So this notion of core plus, our core is still going to grow at low-double digit and we're gonna more than double our men's business, as they lead growth driver within innovative product.

From a omni-guest experience, we talked about their vision, being an experience for brand igniting a community of people living the sweatlife. Omni guest experience is exciting area growth pillar where that is really going to come to life. How we think of sweat, grow and connect. How we think about innovating and building upon our community's, experiential loyalty program, how we're thinking about experiential events and doing more of the ones we do today that are big impactful and really create a halo for the whole vision of sweatlife and the brand into our experiential stores.

You'll hear more from Celeste later today about our plans behind all of those, and our new experiences store that will be opening in July. As well you'll hear that how

you bring this omni guest experience to life, how we create the vision of igniting a community will be rooted not just what we do in the physical space but what we do within our digital space. And we have continual opportunities around our foundation even with the success we have. Celeste will share with you our plans to continue to build out the foundation as we continue to layer on, innovation that's building towards supporting the vision of an omni guest experience. And in that, we are excited about the growth that we have within our store business.

So similar this is core plus. Our store channel in the next five years will grow low-double digit, and digital will more than double. So similar to innovative product, what you're seeing rooted in our plan is health in our core, continual growth in our core and then, these key growth drivers, men's more than doubling; digital more than doubling, but on the face of a very healthy core that will continue to grow.

And then finally, we're going to continue and focus the third growth pillar on expanding markets. And what's exciting here and what you'll hear later is our North American business is incredibly strong. We'll continue to be strong, and we'll continue to contribute growth over the next five years. We still see significant opportunity within the North American business to drive our sales growth. Equally is the opportunity that's happening. The video that captures the essence of our vision of the sweatlife is happening in Europe. It's happening in Asia Pacific. It's happening in China. And we are really excited about the opportunity that we have to expand into these markets to bring that vision, to bring the brand to life in those markets and you'll hear from Stuart our plans to do that.

And our goal over the next five years is to quadruple our international business. Our core North America is still going to grow low-double-digit. And the reasons we're sharing growth numbers with you versus penetration numbers with you is quite frankly our core isn't done yet. So I don't want to be held to a penetration when we want to grow the business and digital is going to grow. It's going to more than double. But the store base business is still growing, and international is going to quadruple. But North America is still growing low-double-digit and men's is going to double. But women's is still growing low-double-digit. So we see both success in health in our core as well as these three large growth drivers out of the three growth pillars that make up the power of three on top of, obviously, the numbers that I shared with you earlier.

So PJ will go into greater details with you around those. I'll sort of conclude with we're really just getting started. The opportunity for our business is significant. The advantages that we have, first, coming out of having powerful momentum, the benefit of having powerful momentum and the momentum we have is that as I shared with you earlier looking at where we got the growth in 2018 is, it's balanced. It's across all levers of the business. It's across men's and women's, it's across multiple product categories, digital in-stores, North America and International. So it's very healthy and balanced, but it's driving momentum in the business and what we can do with that momentum, is allows us to invest, allows us to invest back into the business. And we'll continue to do that. That's why we can test and learn. That's why we can figure out how and what events in which way in which we want to build the

brand loyalty and how to talk to our guests to build that share of wallet, how to leverage digital marketing and we'll continue to do that. That's the power of momentum and we have it and it's going to allow us to continue to invest, allow us to continue to fuel and continue to drive to the top.

As well, the vision really opens up not just what we've been doing around incredible product, what we've been doing around the activities in which guests sweat, yoga, train and run being the three critical but rounding out the other activities in which we know our loyal guests sweat. But it allows us to look at other opportunities, like the signature movement that Tom showcased of how we accelerate our bra business, not just incredible product, but how do you create an incredible experience for the guests that's unique, different and allows them to find something be it a bra that others can't connect, and think of how we can build upon that system or grow into meditation, restoration, recovery.

These are categories that we're excited about -- excited about how they can fit into the brand, the vision of the sweat life and eventually through test and learn become large contributors to the overall momentum and success of the business. But Whitespace and the innovation that's happening combined with the vision is really setting up us -- setting us up to think about areas in which we potentially haven't leaned in as much before, all rooted in product, all rooted in sweat, designed by the athlete for the athlete through science of feel. But we know that athlete is looking for more, they are looking for a more balanced way in which they choose to live and we are an authentic brand to deliver that.

Great storytellers. We're not going to win and outspend the competition when it comes to marketing dollars. But I don't believe we need to. Our opportunity is less about being heard by everybody, it's being heard by the right people but being understood who is Lululemon? What is it we stand for? What is it we're creating? What is the vision? Why is it right and resonates with you? That's the exciting, and being a vertically integrated retailer, we have a much bigger opportunity of how we leverage that, leverage the guest relationship, leverage our community, become better storytellers. The role that ambassadors play in supporting our product launches, the role in which our events play in supporting our product launches, the role in which our stores play, our digital play across all levers we have, we will cut through by becoming better storytellers by leveraging the strengths we have to be understood to showcase and present the products that we launch through the vision that we have of igniting that community in the sweat life. They're not independent, they're completely dependent, they're completely built upon each other, and those experiences are there to accelerate the awareness of product, they're to accelerate the sales of product, the performance of product.

And then finally winning on talent. This isn't an ambitious exciting vision. It's going to require talented people. We have talented people inside the organization, but it's something that we know we're going to continue to focus on, and we're going to build it by; first, developing the talent within, being leaders in how we develop leaders and their skill sets, building a culture in which people want to work with and for and hence have unmatched retention and then a halo of creating something that

is just so cool and special that people want to join and the talent wants to come to you. So we are going to continue to win on talent and we'll never take our eye off the importance that it plays in the formula of creating a vision that is truly unique and separate from what everyone else is doing, and in doing that, obviously, we believe we will be on our path to achieving the full potential of Lululemon.

So later today, you're going to hear from the leadership team as I said, we've been in co-creation for the last few months. Well, quite frankly, nine months since I've joined, they've been incredible partners for me along my learning journey. They've been incredible partners of getting in the kitchen and co-creating and really setting the five-year vision that we have for the organization of which we shared back in February and you're going to hear from them today, -- on the three, power of three and the three growth. And at the end you'll have the opportunity for Q&A. But with that, I wanted to open up an opportunity for some direct questions now if anybody has in the room for I think 10 minutes or so. (Technical Difficulty)

Yeah. I think the -- I think one of the competitive advantages is simply the fact that and you had the opportunity to meet Ben today, is that the design team is made up of athletes that are wired and focused on creating solutions through technical apparel. So, that to me is a distinct advantage simply by the very nature of the people that we have. I equally feel that under Sun's leadership, having both the design, as well as the merchants under her leadership is a distinct advantage for us, because it allows us to gain the alignment on what is it were innovating against the strategy, then against how we're trying to bring it to market. Typical pipeline for us is two years plus or minus a few months, if we want to take a strong position on a particular pinnacle call it run. Having that alignment and working with Sun across both designers and the merchants allows those teams to be well coordinated along that journey. So when that opportunity comes, we brought solutions that are disruptive and unique to the marketplace.

I'll let Sun talk to if there is sort of ratios of, sort of design to merchants. I would tell you that equally are important within our mix and the synergies of them together are working well in us, building out the new innovative product strategy.

## Unidentified Participant

(Technical Difficulty)

## Calvin McDonald {BIO 16657186 <GO>}

I don't want to say too much on footwear, but we learned a lot through the collaboration in the partnership. We learn that as I said guests are engaged in the category within our environment. We learn that we can showroom footwear and do well in terms of sales and performance. And we believe we've identified an opportunity that will be unique to us, and unique within the marketplace. We are looking to do it ourselves and we'll share more at a later date.

## Unidentified Participant

When we think about the five-year plan that you laid out curious to hear your thoughts about what's the lowest hanging fruit. What are the low-hanging fruit pieces of the puzzle and which parts of the five-year plan do you think you're going to have to work a little bit harder to achieve those numbers that you laid out?

**Calvin McDonald** {BIO 16657186 <GO>}

That's great. Doing a tape with me and created a tail. I think -- when I think of some of the low hanging fruit, a lot of them are rooted in the opportunities that I shared in that we already have credibility with the guest. They're already buying a particular category for us, but we haven't yet fully rounded out. So we have an intent with the guest. So run to me is a good example. We're good, we are not great in run. But what we know is that many of our loyal guests consider us for their run needs. As soon as we start filling those needs with assortment, those are pretty quick sales opportunities. We haven't up to this point, had a split short in our assortment.

You really can't and that is a big opportunity within run. Some of our men's run tops aren't the best performing if you're going out for a long run in terms of how they perform because they haven't been designed for that. Ben and the team are doing a great job designing in to it. So I think one of the -- and there are many of the ones that I sort of identified. But I think just the fact that we're in their consideration wheel and they're buying part of the category and it's a large category and we haven't yet filled out the needs that they have, that filling out those needs are some real sort of immediate opportunities for us to see. And then I think the areas that are going to be more interesting is just that, when you get into the newness in the Whitespace.

So self care is a category in which we've tested and we've learned and we believe there's an opportunity around athletic needs in the beauty space that we can -- we create. But we know that when you build a position and you're building a brand, it's going to take time. But I think the shift of the vision and really connecting it to the store base as well as our digital are the areas in which we have to wire it, which is the challenge to do. But I think it's really more the new areas are probably the things that we -- just because it's unknown. The good thing is it's not anchored in the financial model. We haven't depended on any of it for us to achieve what we want to achieve.

**Unidentified Participant**

Calvin, over here. How you doing? So my question is on international pretty remarkable quadrupling expectations. As you think about what you know about your high value customers in North America, are there attributes that you see in those loyal customers that are starting to emerge in those international markets? And then are you able to distinguish what that dataset looks like to leverage and get that customer sooner of the brand awareness ramp [ph] process, so that you can actually get to those numbers that you're laying out?

**Calvin McDonald** {BIO 16657186 <GO>}

That's a great question. A couple of things. We're definitely taking approach which is our brand is 20 years young in North America and where the guest is on that journey

in understanding lululemon and understanding our vision of living the sweatlife. It's very different than where the guest and that brand is say it in Europe or in China.

So we continue to look to pushed. What you'll hear from Celeste is how we're pushing and leading innovation of activating the sweatlife within North America with the intent that we will fast follow in the other markets. And they will not take 20 years to get to where the brand is fully positioned, but we're also letting them build along their journey based on the same way that the North American business was built, which is bottoms -- women's bottoms continued to be the Number 1 acquisition vehicle.

We just, in fact, did a campaign in China on women's bottoms to kick off this year, and it had a significant impact and significant impact in acquiring incremental guests in overall business. So I think one of the things that we've talked about as a leadership team is how do we make sure that we're not thinking about every market through the lens of where lululemon is today within North America, because you may not accelerate or may not put the focus on women's bottoms to the same degree if you look through that lens. And when we paused and looked differently at China and put the focus on women's bottoms to accelerate the guest acquisition, because where they are in their brand journey, we saw an immediate impact.

So I think they're all tracking the same. They're just at different points and we're going to be accelerating them, but absolutely, there's a distinct difference in how they're tracking. But what's good is they're tracking similarly at just different times.

Man over there in front.

### **Matt McClintock** {BIO 16452505 <GO>}

Sorry, Matt McClintock, Barclays. So Calvin, thanks for bringing up addressable market. It's a question I think we all grapple with, with your company. You started with the North American sports market within the global sports apparel market. Those tend to be highly consolidated market shares amongst very few players probably because of various large barriers to entry, et cetera. How do you think about consolidation of market share as you go into new areas, the \$3 trillion, et cetera. Given that you have those streaks that allowed you to consolidate market share in the sports apparel market.

### **Calvin McDonald** {BIO 16657186 <GO>}

Yes. I mean, I think it's definitely a lot less concentrated and I think, we have an opportunity to continue with the size, a dominant healthy share within the apparel addressable market. What I don't, what I want to make sure is in the vision, everything begins with product. It's what we do. It's what we're creating and how we activate it. The benefit of the vision of people living the sweat life is they're living that sweat life through our product and they're living it through events for hosting it, they're living it through grow activities and how they choose.



So that will continue to be, those first the \$83 billion in North America will continue to be sort of that the primary area that we build upon. We see a lot of opportunity and we'll focus on. As we build out, I don't see significant concentration and I think, we will learn to figure out if there is a particular area, that we can really lean in and do much more in terms of market share. But it really is early in terms of what is our opportunity in recovery and restoration. We're having those discussions. We think, it's pretty exciting. But when you look to even to find out [ph] in the marketplace, it's so new.

It's very hard to define but the fact that I have confidence that it fits in with our vision. We're in the work in our Whitespace innovation. It is decentralized, it is shaping as we see it that we have an opportunity of carving out share. But, as we look at the other peripheral opportunities, I'm less driven about share right now, as just, what is the right opportunity. How does it resonate with the vision, how does it resonate with our guest and how do we grow that share of wallet and loyalty? I mean, that's really the driver behind a lot of these, and then share will be what it will be because outside of the apparel business because I think it's very decentralized at this point and emerging as we see it. But we're really thinking of it through the guest. That guest interaction and the spend, that guest house [ph] with us.

**Matt McClintock** {BIO 16452505 <GO>}

(Technical Difficulty)

**Calvin McDonald** {BIO 16657186 <GO>}

Yes, low double digit, square footage.

**Matt McClintock** {BIO 16452505 <GO>}

How you think about that, in relation to the rapid growth of the digital channel which I think you've said could represent 50% of your business over there. I don't know at what point but I think you've said that. So I just wondered, how you protect against what's happened to a lot of other growth retailers, which is to end up with a store basis, potentially unproductive on margin. So I want to hear your thoughts there and anything you could give us on total potential store base would also be interesting? Thank you.

**Calvin McDonald** {BIO 16657186 <GO>}

Interesting but we're not correct. I can answer. I mean I'm just. So I mean you're right. Square footage growth we've guided towards low double-digit. Our store opening, we've modeled in line with what we've been opening. So we haven't planned to accelerate but we haven't planned to slow. Obviously we have room for growth internationally and Stuart will talk to that, China in particular, we entered this year with 15 stores in a country of 1 billion and significant opportunity.

Within North America where we're 20 years there is still room for growth for us. I think our store counts in the 280 range, compare that to other retailers they have significantly more. When we look at the productivity, when we look at you know the size of the market and what we can pull, I think those are conservative numbers. What you'll hear is our -- it really is the agility of the channel. So over the next five years what we're looking to do is continue to open at the pace we're opening at this point, shift, continue the seasonal small store mix that we have today, which is very healthy, allows us to get it in test markets, allows us to get in at a high productive level into smaller markets which is very unique. Continue expand our co-locates, so it's the medium sized stores I think you'll see shift more to large size doors. That will increase a greater ratio of our store fleet come 2023. That's where we'll have the opportunity in proven doors where we know we've resonating connected with the community and as we continue to build out our assortment we want to express it in a larger way. But that's a pretty good bet because we're taking our medium doors and we're shifting them to larger.

And then we're going to be introducing our true experiential door. So you'll hear about Lincoln Park in Chicago. We've modeled that to be about 10% of the fleet by 2023. And again these are all open to performances, if the experiential doors are as strong as we believe they are, we will choose to accelerate them. If we continue to see great response to our broadening of the assortments as we round out run, yoga, train and some of the pinnacle product that you saw at lab then we can accelerate that. But that's the current plan, current store that square foot growth and that's how we'll see the shift within. And the health I think that is still a very healthy number of physical space versus our our digital space.

And I think what makes our brand unique is the connection between the physical and the digital that is our vision. So yes, you can interact and purchase Lululemon online, but there's a reason to go to the store that's beyond just purchasing and transactional. And most others that struggle and suffer, that's not the case. But we see these building together and think there will always be reason to interact with both. But we still have room for growth before there's any real concern.

So that's all we have for Q&A right now, but we'll do more at the end of the day. And now we'll move on to Sun.

## Unidentified Speaker

Okay. So I think Sun's coming up next, but before she does, I am to introduce a video about the Science of Feel. Thanks everyone.

(Video Presentation)

## Sun Choe {BIO 20508451 <GO>}

Hi guys. Good morning. It was a pleasure walking most of you through at least at a very high level Science of Feel as well as what our Whitespace team has been up to

and are taking collaborations in lab. So what I'd like to do in the next 25 minutes is really go and take a bit of a deeper dive into our product strategies for 2019.

Earlier today we walked you through at a higher level what Science of Feel is and how it comes to life through the lens of activity. So what I want to share a little bit deeper now is talk about why we have the confidence at this proprietary take on innovation will continue to fuel the growth for us across men's, women's, accessories, as well as new ventures.

So a few years ago when we launched the pant law, we observed there are guests for either sizing up or sizing down to change how they were feeling in our existing styles. So what that uncovered for us was that our guests were looking for something they couldn't articulate, but they were showing us through their actions that they were looking for new sensory experiences, that they weren't currently getting from us. They sized down when they wanted to feel little more free or relaxed; they sized - - actually they sized up when they wanted to feel relaxed or free; they sized down when they wanted to feel a little more compressed. And so what this led us to is intentionally engineering new sensations for our guests.

And so we offered never experienced before materials like Nulu in our line tight, where our guests could feel like she was wearing everything she needed and nothing at all. All at the same time. So it's really (inaudible) incidents that the expression of science of feel in our pant business has created a trajectory in our women's bottoms business that is responsible for delivering significant growth in 2018. So what's really exciting for us as we look at the future growth opportunities for Lululemon is the commercial success of science of feel, it's not just our innovation philosophy, it is actually something that we feel is commercially very viable in the future, as we take it across categories into activities.

So moving into activities, most of the times we've been talking to you guys a lot about our category growth, really growing and expanding into bras, expanding into women's, expanding into outerwear, as well as expanding into men's. And so for the first time you're really starting to hear us talk more intentionally about moving into activities beyond yoga; and again really infusing the innovation of science of feel into these activities. I would also say to the opportunity for us inside the activities is because we work so much more category focused, we might have developed a great Run Tight for our female guests, but we didn't really offer or necessarily the perfect top to wear with it. So you'll will start to see us do more is really outfitting against the activities. So we really want to service him and her really in a full head to toe. Across run, train as well as yoga.

Moving into women's, we know that while it's the biggest piece of our current business, we feel like there's still a really long runway and we know there's a ton of opportunity and category expansions. The women's pants probably the most commercially successful for us really having driven a ton of growth, but most of that business has been in close to body and tights and really in pursuit of sweaty activities. Where we see the opportunity is really expanding upon the fit portfolio, so really distorting and going after joggers, wide legs, away from body silhouettes, as

well as continuing to really innovate on fabric. We have a really rich pipeline to make sure that we are continuing to develop new sensory experiences for our guests based on the insights that we see in the market and insights that we receive both from our guests as well as our Whitespace.

One cool thing that we're going to be leveraging. I know we've talked a bit about this engineering sensations whether it's someone wanting to feel naked or someone wanting to feel more hugged in, we've actually developed a technology that we're calling sensing it, it's going to be coming out the back half of this year and the cool thing about this is even within one item we're able to engineer different sensations in that one item. So rather than feeling naked all over or feeling held in all over, we're actually able to engineer places where you might want to feel more free and areas of your body where you might want to feel more held in depending on the activity that our guests participated. So really cool innovation from us and really taking that idea of engineering sensation to a whole new level.

Going into activities, really wanting to claim activities outside of Yoga. And as I mentioned before using the idea of science I feel -- we really feel like between outfitting and really solving for distinctive touch, thermal comfort and embracing movement or there's just a lot of runway here. But beyond just the category growth that we've talked to you about in previous years.

Moving into bras, really, really exciting growth category for us. We know that there is a ton of unmet needs that we are uniquely qualified to solve and so Tom had walked you through earlier this morning around a thinking on signature movement and really being able to personalize a women's breast movements and what we found when we launched the Enlite bra is that most of the competitors are really developing bras particularly for high support that really stops motion which creates a discomfort when you're actually not participating in an activity. So what we've done with this bra is really engineered it so that even when she's not in motion, it still creates a great deal of comfort for her and also providing a much more comfortable health and sensation for her.

Hoping on us really expanding the high support portfolio. Currently, I would say today in our bra business, we're most famous for a strappy back details and I think there's a reason for that it's because our roots are in yoga. So you don't need as much support when you're doing something that has a little low impact. So, I'd say we're famous in strappy back details, really for low to medium support. So, you'll see us especially with the back half of this year, really starting to grow and expand our range of high support bras, which again goes to support the idea that we want to go after other activities beyond run and claim or yoga and claim, run and train, as something that we really want to play to win in.

The other thing that we've noticed, in terms of guest behavior when she's shopping for bras is that when she does buy a high support bra from us, she's more likely to have a repeat purchase. So, we're really excited that by expanding into high support bras, we will really be able to increase the loyalty from our guests in terms of this category. And I would say, we're still in the early innings of really intentionally

figuring out how to apply science to feel into this category. We feel like we're really close to unlocking this, and at some point in the future we boldly feel that our bras will be as big as our pants.

Moving into outerwear and OTC, again this really is aimed squarely at growing wallet share with our guests. We believe we have a really unique point of view in outerwear, really expanding the assortment across whether it's office travel commute or run or train, and we also feel like we have a proprietary point of view on this. So, using the science of feel we know that, in order to, actually protect guests from the elements, sometimes there's a discomfort that comes with that. So there's no, I mean I'm sure you guys have all the experience when you have your coat on in the winter you get into the car to drive, the first thing you do is take that coat off, because it restricts the movement while you're driving. So, really trying to solve for that so that we can make sure that we're creating raw materials, fabrics, constructions to really move with the guest and create a comfort that may sometimes come at the cost of protection from the elements.

Secondly, we're going to be doing all of these things without ever losing sight of the fact that we believe our guests really come to us for the combination of both a really great looking outerwear, but also being able to provide those great functional solves. And then finally going into the OTC category, office travel commute, which we've touched on a little earlier. We know that men's has been really able to drive a lot of success in this end use, and it really is about when you look at the sweat life in totality, it is about life on the go. He and she is definitely moving from the studio to the office, back to the studio and we believe that through the science of feel, there are a lot of unmet needs and compromises that our guests have to make. So we feel that we will be able to help unlock what those compromises are and really unlock it new incremental end use for our guests, and thereby continuing to see some growth opportunities within the women's line. And really leveraging the learnings in men's, because they've definitely been much further along in this category. So we believe that that's something that we can take advantage of. You'll start to see us really going after it more intentionally at the back half of 2019 and then it'll be a really big curtains up in 2020 where we'll be offering them a little more well-rounded assortment. And again really infusing the intel and Philosophy of -- from science of feel.

And then going into men's, you heard Calvin talk a bit about this earlier. I mean, really our aim is to double our men's business in the next five years. It is one of our three most important growth drivers and pillars. So here what we really want to be able to do is focus on guest acquisition and brand awareness. We feel like in this space we don't have enough guys that really know Lululemon to be a brand for them and really trying to get over the idea that Lululemon is a women's brand. So you'll see us entering into partnerships and creating a lot of activations that really speak to guys and as well really excited to expand on a lot of new launches. I'd say 2018 was a great growth year for men's, but it was largely off the backs of franchises that have been existing. So if you think about ABC, if you think about our big three shorts and our Metal Vent that really was primarily what drove the men's business since 2018.

2019 we feel like it's a great inflection year for us, because we have a ton of newness really in the pipeline. The first one which we touched on this morning Ben and I is creating and launching a new run franchise called Fast & Free in men's and it really is a notion of men wanting to feel fast yet free when they're running, and it also has a lot of thermal regulation properties and creating some pinnacle products within that with a split shorts and some singlets, and as well we're really actively going after train as an activity, really building durable fabrics that -- while it's durable, so that it can -- it won't abrade while you're doing deadlifts or weightlifting. It also has a flexibility to the fabric, so that it can still really embrace the range of moments -- or movements that the guy is making while he's doing his crossfit workouts.

And the exciting thing about License to Train in particular is it does create a net new aesthetic for our men's business, really taking cues from the streetwear trends that are happening out there. So you'd see in the portfolio of our men's business that we are kind of widening the aperture in terms of aesthetics that we service for our guests.

Finally, going into collaboration and lab. I know you spent some time with Widy [ph] this morning, really going through what is coming up in 2019. Just wanted to take a step back to let you know that we have been doing collaborations over the last couple of years. And I think the point of difference for us is we really do try to leverage our relationships with ambassadors as well as studios that we work with, as well as places that we feel are really culturally important. So I think the first collaboration that we launched couple of years ago was turned to me. It was met with a lot of commercial success. And then from that, we entered into relationships with the Royal Opera House really had great relevance in our Europe market particularly in London. But it did resonate quite well in North America, because it had such a feminine aesthetic. And this really was more a play on seeing if we could potentially have opportunity in a dance category as well as really working with Francesca who's a prima ballerina within the Royal Opera House.

The second collaboration that we did last year that was really successful is probably something that's way more adjacent to who we are. We worked with self cycle. Again that was very successful for us. Probably less successful in terms of acquiring new guests because of the adjacency of the brand and what they do. But still a really exciting collaboration and just a lot of learnings there and it was definitely an important retention play for us in terms of the guest view.

What's exciting for 2019, because we feel like our approach to collaborations, we've really want it to be dynamic, we don't want to continue to go after the same suspects whether it's fashion designers or ambassadors. We actually really want to be able to mix it up to surprise and delight our guests. So in 2019 we're really working with much more fashion relevant designers, so on the men's side working with Robert Geller and on the women's side working with a pretty high end designer named Roksanda. And we believe that this will really create credibility for us really with that more early adopter fashion market and give us fashion relevance. And what's really important about these two collaborations is that they actually have a lot of reach in our Asian and European markets and given that that's such an important growth

category for us. An initiative for us. We feel like this will be really -- would resonate really strongly in those markets.

So more to come on collaboration and you'll continue to see us work with a lot of different types of relationships whether it's artists, musicians et cetera. And our goal really assume mix it up and not kind of go to the usual suspects.

Going into accessories. This still actually is kind of a start in that business for us. And we're really excited for 2019 to build upon the successes that we have seen and to really demonstrate the elasticity of our brand. So like some key things that we're going to be focused on in terms of growing the accessories business. One, really going after bags. I think, we've kind of been all over the place in terms of our aesthetic. What I'm really, really excited about for fall '19, as we are really creating some iconic franchises and really letting the lifecycle of these franchises live much longer than they have in the past. And so really owning bags and having that be a key piece of our strategy. I'd also say that we've probably been a bit one now in terms of the fabrications that we've offered. We've been heavily distorted into nylon and you'll see us starting to diversify our raw materials really just to give more visual character as well as little more durability in our fabrics, for our bags. And we also know regardless of the functionality that we build, we know that aesthetically it has to be something that a woman wants to carry from the gym into the subway to go to her office and not something that's like screaming, I'm a workout bag. So those are some of the aesthetic details that we're evolving.

Going into the other categories in accessories, really to support us going after more intentionally into the activities, can you flip back, thanks. We believe that, we want to use yoga -- not yoga, we want to use equipment to really complete the activity through equipment, so to the extent that we are in yoga, run and train, really want to be rounding out with the best yoga mats, rollers, to really release the tension in your body. We also launched some training gloves, so we kind of haphazardly launched some of these equipments, it actually has been met with a lot of success, so we feel that if we can intentionally tie up these equipments into the activities that we're going after, really into the framework of outfitting, there's a lot to unlock here.

And the same thing goes for socks. We know that this is where we can also help complete the activity and a critical part of someone's sweaty pursuits. And then finally, we feel that within accessories, there's a lot of different categories, whether it's hair accessories, scrunchies, headbands, hats and we know that these are gateway products for us because it really is a much sharper price point, so it does enable us to get younger guests into the brand. And also as well help to build the basket and make great gifts, so we see an opportunity within this category to be basket builders, have some sharp price points to be a gateway products for younger guests coming into the brand, as well as when you look at kind of where the business spikes, it really does spike around Mother's Day, Father's Day, Christmas. And so we believe there's probably an opportunity for us to leverage gifting year round within accessories.

And then finally really going into self care. This is a new opportunity for us and it is something that we tested back in October. It was sold in 17 stores across three

different markets Chicago, Orange County and Toronto. And what we learned from our guests is that she really trusts us in this space and she really looks to us as the experts in authority on sweat. And so the products that we launched with was a deodorant, a dry shampoo, a lip balm and a facial moisturizer. And based on the test and the results of that, we feel optimistic that there is an opportunity for us here, we definitely have a unique take on it given that we feel that we are the authority on the sweat life.

So, we will be rolling out self care to 50 doors in June, as well as online. Same categories and the other unique take that we have on it is, as we talk about science, you feel as if you -- and you guys will all get some giveaways when you leave today. You'll notice like whether you put on the lip balm or if you actually touch the packaging, we really are incorporating the science of feel into this product. So when you put the lip balm on you'll see that the texture of it on your lips feels quite different from what's out there in the market. On the packaging we really, intentionally built it so that, it was soft to the touch.

And when you have it in travel packs which we really believe that that's a huge opportunity for us, as people kind of you're like rushing out of the gym to get ready to go to the office. We wanted to be able to have some travel packs for our guests when they're going from studio to work. We have them in travel size packages. But the cool thing with the soft touch packaging is that you won't hear it rattling around to distract you. So just again some really thoughtful details that we embedded into our product, really intentionally using some insights from science of feel.

So, really, that is a roadmap for product for 2019 and beyond. And we'd feel really confident that with the successes that we have had, using science of feel as our innovation platform, it is not only a differentiator but we know that it's commercially very viable. And so, we're really excited to be able to continue using this and leveraging this philosophy into all of our products and in the years to come. So, thank you.

And Then with that I have the pleasure of introducing Celeste. Thank you.

**Celeste Burgoyne** {BIO 20012334 <GO>}

Hi, everyone. My name is Celeste and I'm happy to be here today to talk with you guys about the growth that we see over the next five years in North America, as well as all the innovation we're up to within our Omni guest experience. 2018 was a great year for North America. We ended with a 7% store comp and a 43% e-commerce comp and close to \$3 billion in business. We ended with just under 350 permanent stores and 25% digital penetration. And probably the most exciting thing is not only that 2018 was a great year, but how much runway we still see left in North America. As Calvin mentioned, men's digital and category expansion are all truly in their infancy within North America, which is our most mature markets. Our North America growth story is really anchored on our physical ecosystem, our digital ecosystem and our community model. We are focused on creating a guest-centric full omni channel experience and we really believe that we will be in position to win.



I'll take you through those three strategies in a little bit more depth. So to start with our physical strategies. Our physical growth is really fueled by our agile retail concepts and to your question, Jan, I feel really confident that we will continue to have one of the most productive store fleets out there and that our store fleets will continue to be the envy of most retailers.

Five years ago, we really had one store type. It was a 3,000 square foot store, if you were a \$3 million store or a \$30 million store, if you were in a suburban mall in Chicago or if you were in a really cool downtown hip neighborhood. Today we have four distinct store types that we really look to in order to help us create relevant experiences in every community we go into. They are helping us penetrate markets deeper than we ever thought possible and we're actually seeing less cannibalization than we assumed, which is a great sign. And this strategy also allows us to leverage our strength of agility as an organization as well as our local community knowledge.

Within these store types, I'm going to take you a bit deeper into this seasonal strategy as well as our co-located strategies, because I think we truly have a unique point of view in these. Our seasonal is really our pop-up strategy. So these stores on average are open for three to six months and last year, we opened over 60 seasonal stores in North America from resort towns like Cape Cod in (inaudible) to back to school hubs like Harvard Square and University Park in South Bend, Indiana to holiday centers that are really relevant during the peak months like Arrowhead in Phoenix Arizona, Santa Anita in California and Smith Haven in New York.

Our seasonal stores allow us to capture organic traffic, our seasonal stores are over indexing on new guest acquisition and on average over 35% of all guests in those stores are new. So we're acquiring guests at a faster rate. It's also letting us test and iterate markets to understand how we can grow our permanent footprint into the future. Oops, that was a mistake. Our co-located, our co-located strategy had been a major focus for us over the last few years and I know you've heard us talk about that. It is really going to help us with our goal of doubling our men's business. And this is where we take our most productive stores from approximately 3,000 square feet and we expand this square footage and take them to on average 5,500 square feet. Within this square footage growth, we are seeing really good overall business growth. But in men's in particular, we're seeing on average 50% to 60% growth in men's with this additional square footage with no additional breadth of assortment given.

And better news even on top of the year, one growth we're seeing as it in year two, these co-located stores are continuing to outperform the mainline from a comp perspective, which gives us a lot of confidence as we look at category and assortment expansion into the future. And although we are really excited about our physical strength, we are actually more excited about what we see is possible within our digital ecosystem. We can clearly see a path where we will double our digital business across the globe and we know that North America will be a huge part of this.

Three key areas of focus within our digital growth is a focus on our core e-commerce experience, growing the online assortment and transactional omni. Within our core e-commerce experience, we are really focused on our foundation and ensuring that it can scale with us. This year you will see further enhancements of product education online with a real focus on our product detail page, which is really the workhorse of the website. So lots of opportunity within that.

We will replace our search and browse platform with a more modern system that will allow the guest to have a much better product discovery journey online. We will do a complete redesign of checkout, which will help us to eliminate any further friction within the guest journey, and we will begin our journey on getting true personalization between the web experience and our app experience. And on top of that, as Calvin mentioned earlier, we will have a real focus on bringing the soul and community of Lululemon to life within our digital ecosystem.

Growing the online assortment, based on performance and product insights, we believe that our online assortment can be two times the assortment in store. Some of the key areas that will start to look to right away in order to expand this assortment are extensions of color in core styles online, extending sizes, so either zeros to 14 inseam in different lengths as well as our fixed waist sizing in men's online to ensure that we carry that full-size assortment. We'll have year-round shops. So a real focus on ensuring that year-round things that may be more seasonal from a physical perspective are still available. So think swim, rain or accessories which we know have the ability to over index online. And then online exclusives will also continue to be a big focus and we know those are always a huge hit. Transactional Omni, we know guest expect a seamless experience between channels and they want to be able to get what they want, when they want it, how they want it. And we're really committed to ensuring that our experience supports this. With our great physical footprint and our digital capabilities, we believe are really set up to win within this omni-channel experience.

We'll have a continued focus on BBR which is our endless IO experience, today, that drives over 12% of e-commerce revenue comes from our stores, selling from the full assortment to the guests within their four walls. So ensuring that a guest might get a curated experience in their local store that they always have access to the fullest assortment online.

We have an innovative comp plan that ensures that our educators are always focused on getting the guest exactly what they want and BBR will continue to be a strategic pillar for us, as we grow the online assortment strategically. Shift from store is something that, I would say we're industry leading in today due to the fact that we have RFID as our foundation. We will continue to leverage shift from store to ensure that we can sell to the last unit and really take into consideration top line and margin implications as we move product throughout our network.

And then buy online, pick up in store. We have currently 35 stores testing buy online, pick up in store, since last fall. We continue to iterate that experienced and we now have a really solid experience and that we feel confident with that fits in the category

detail page and we will be rolling buy online, pick up in store out to our entire North America fleet by back to school and we believe this will just help again to really elevate the overall experience for our guest and leverage our ability to convert quicker and more often on e-com and drive store traffic.

And now community. A lot of people would stand up here and they would talk about physical and digital. We're in the unique position about being able to talk about physical, digital and community. Community is really at the heart of who we are and not only it's at the heart of who we are, but it's really at the heart of our Omni guest experience. Our community model made us experiential, before experiential was a thing. In community specifically, we're really focused on our ambassadors and growing and amplifying our ambassadors as they are truly the heart of our community. On top of our nearly 2000 store level local ambassadors, we have three global programs that we feel really strongly that this will be able to grow and amplifier ambassadors in a big way.

Our global yoga Ambassador Program is where we got our start. This year, we're launching our global run Ambassador Program with Charlie Dark who's our first global run ambassador and he hails from the UK and he's really helped us and (inaudible) in a really authentic Lululemon way. And then our global elite athlete program, we support over 70 elite athletes across the globe. And we are really dedicated to helping them reach their highest athletic endeavors. And we're really excited that this spring we welcome Nick Foles, who I'm sure a lot of you know, who ended up winning a Super Bowl with Philadelphia Eagles in 2017 and he just took the starting QB job at the Jacksonville Jaguar. So we're really excited to support him and cheer him on during the next season.

Our goal within all of this, physical, digital and community is really about deepening our guest experience day-in and day out. Today our relationship with our guest is a strength. As Calvin mentioned 90% of our most loyal guest shop with us year-in and year-out and yet we don't take this relationship for granted. We're really excited to share with you how we're continuing to push the boundaries with our omni guest experience and push our ability to go deeper with our guests and create even more intimate experiences.

With membership experiential stores and events, we're really aiming at giving our guest access to the sweetlife, through sweat, grow and connect in an authentic Lululemon way. We see these three things really unlocking our full potential as a brand and supporting us in truly becoming a global experiential brand. So I'll take you a bit deeper into each of these areas.

So our membership program is currently being tested in Denver and Edmonton. And it's really aimed at giving our guest access to sweat, grow and connect. What is the membership program. So I'll give you a teeny bit more detail. For an annual fee, the guest gets access to exclusive product, our personal development curriculum, they get 12 classes, one a month at local studios in their community led by our ambassadors and they get access to our development curriculum as well as member only events.

A couple key learnings so far. First of all events matter. In Edmonton, in a random Saturday at the end of January with minus 40 degree weather, we had 14,000 diehard members come out to do a three hour sweat session with us. And I'm still getting feedback that it was one of the best days of their year. Our initial demand gives us a lot of confidence. For example in Edmonton in the month of October when this was for sale, in those four weeks we sold twice as many memberships as we did the Align Pant. And for context the Align Pant, is our number one pant in women's. So to sell twice as many memberships which is really an unknown product in that same time period really gives us confidence in terms of the guests being ready for more with Lululemon. And then we assume that our most loyal guests would be -- really be the one knocking down our doors, signing up. And we've been pleasantly surprised that both in Edmonton and Denver, this has actually been a way to acquire new guests. This has actually been new guests first for just with lululemon. In Edmonton, 10% of memberships were bought by somebody as their first purchase. And in Denver, it was actually 13%. So we are actually launching Edmonton in Austin in May, and then we will test one more market in North America this year. We're continuing to test and iterate and are really excited about how we can create a really special membership program that we are proud of and that our guest loves. I did receive a review this morning. We get constant feedback from our members that I just wanted to share really quickly. So from Stephanie; the lululemon membership is absolutely worth every penny. It allows a person to explore the fitness opportunities within one's city that they may not have discovered on their own. Personally, I discovered that I love spin, and before this practice, I just thought it wasn't something that would be of interest to me. Discovering fitness gems and connecting with friends while doing so is pure magic. I hope this practice continues as its rewards are quite obvious. I would definitely sign up again.

Experiential stores. Calvin took my thunder a teeny bit, but we're really excited that this July, we will be opening up our first full expression experiential store in Lincoln Park in Chicago. It will be a 20,000 square foot experience, and our goal is that it really is a physical manifestation of the Sweatlife, bringing sweat, grow and connect to our guests and celebrating the local Lincoln Park community in a beautiful way.

On top of an innovative shop experience, Lincoln Park will have two sweat studios offering six to 10 classes a day. It will have an innovative lululemon meditation space. It will have a fuel space that brings people together over coffee, juice, smoothies or a seasonally relevant breakfast bowl. We will have close to 45 ambassadors within our Lincoln Park walls when we open and we really cannot wait to get this bad boy opened, so that we can learn what our guest really thinks and we continue to iterate into the future as we really believe that this can teach us as we look at the physical footprint in totality.

And then events. Events might be our best kept secret. We host over 4,000 events across the globe in our local communities. But as Calvin mentioned, this year, we are really focused on our flagship events. This year on top of SeaWheeze, we will also host three Sweatlife Festivals in Europe, one in Paris, one in Berlin and one in London. And in London, we have a goal of having 6,000 people join us over the two days. We'll do Unroll China across 10 cities in China, we'll do two emergence and our 10K series in North America, we will host three 10Ks, one in Toronto, one in

Edmonton and our first 10K in the US later this fall. And just for some context, Edmonton and Toronto went live for sale in March. They both sold out within 48 hours, Toronto getting 10,000 people, 24% men participating in Edmonton, selling 7,000 events -- or 7,000 spots. So this is just a few examples of the scale and opportunity we see possible in the event space.

I notice a lot of information, but hopefully you can feel our excitement and the pull that is truly happening within our communities around membership, experiential stores and events. We see these three areas truly helping us reach our vision of being the experiential brand that ignites a community of people living the sweatlife, through sweat, grow and connect. I would say that I've been with lululemon for 13 years and lululemon was born to do that. So it's really exciting to be in the work. So with that, I will bring Stuart up to talk about international.

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

Okay, thanks, Celeste. Great to be here. We've come a long way since 2014, I think we'd all agree. So I'm excited to share with you some highlights of our vision for international over the next five years. I'd like to start with a video, because that's what we do in videos. And the -- I'll share some stats and contexts after we watch it, but I'd like to share this just because I believe this footage, this video really conveys the -- how powerful our brand is coming to life in our international markets and in China specifically. So with that, Jerry [ph] is going to roll it. (Video Presentation)

So great energy. It's hard to deny, that looks like a lot of fun. So this event was the celebration of our 20th anniversary. We conducted the event in four cities, Shanghai, Beijing, Chengdu and Shenzhen. We had just around 3,000 actual participants live in the event in those four cities and we conducted it in a very intentionally omni-channel manner, meaning we made it very easy and encouraged WeChat-able moments, and that translated successfully into over 1 billion media impressions for that event alone. And so I did want to share, I think to convey the energy and excitement of how the brand is really taking root in our international markets, and you can get a sense for the -- for how the feel of the brand in North America is very much alive and well in our markets overseas.

It also illustrates through the context I just offered, how our business model is coming to life internationally and how we're leveraging the tried and true playbook of community and connecting that to new and innovative digital strategies. So I just thought that was a great way to start. This does -- I think also give you a sense of the excitement that we now feel that we're on the cusp of an inflection in our international business. You heard Calvin describe, the -- our goal over the next five years to quadruple our business. We're very confident in pursuing that goal and we will do it in a manner that is balanced between stores and e-commerce, and I'll offer some additional color and details on that momentarily.

And then finally, we are encouraged that we're seeing growing brand awareness in all of our international regions. And in selected regions, we even attribute the accelerating comp trends we saw in 2018 in our stores and e-commerce to a higher

level of brand awareness. So our work over the last several years is beginning to pay off. And that's a nice Segway into the next slide. This has not happened overnight. This has been a journey over several years a very considered and careful investments. These investments have been laying the foundation for not only the success that we've now been capturing in our most recent year in 2018, but also sets the stage for the next phase of growth.

We're pleased with the success that we've captured over the last four years. We nearly double the penetration of international from around 6% in 2015 to just over 11% in 2018. So we're pleased with that growth rate, but we still feel like we're just getting started. This journey is also not happened without mistakes. And so there's been some important lessons we've learned along the way. We feel like those hard won lessons make us stronger. We've refined our business model. We've refined our go-to-market strategies. And we feel like this helps us derisk the growth plans that we now have into the next five years.

So as we think about where we're headed and our ambitions through 2023, I just wanted it to introduce some of the key elements of our goals. Certainly, the sports apparel market at a \$115 billion is not the entirety of where we see our brand playing, and Calvin touched on that in terms of the other adjacent areas where we feel we can compete and win. But this gives us confidence that we can deliver an annual growth rate in our international markets of over 30%. And we'll do that through four specific key areas of focus that you see listed here. And I could take a few minutes now just to walk us through each of those.

The first being key geographies. So you've heard us talk about Asia Pacific and EMEA broadly over the last few years. Those remain the broad areas that we will pursue growth internationally. We have important growth plans planned, growth plans in each of those geographies rather. But as we drill into those regions, there is one important area, specifically China that emerges. This is really important to our growth story overall internationally. By 2023, we project our revenues in China will exceed the Europe and Australia, New Zealand revenues combined. Just to give you a sense of the scale of growth we were anticipating in China. I will offer some other details in a few minutes. We wanted to start with this to these stats on China, just to give a sense of just the depth of the potential as we see it. Certainly, the level of urbanization, the level of online users and the millennials as a age segment within China, we see all these factors as important tailwinds to our business and our opportunity in China.

Secondly, omnichannel. Guest innovation. So as I mentioned, we will have a very balanced strategy between stores and e-commerce as we enter and develop our international markets. We do see a greater potential for our digital business internationally and in particularly in China. There are key investments that we need to make to unlock that opportunity.

And frankly we're a little behind in our journey from a digital standpoint. We are, as you heard us mention on the last earnings call, making important new investments in websites in Korea and Japan and in China the first half of this year as well as in

France and Germany. So this unlocks an ability to engage with our guests in a local language with local relevant content and also unlocks the potential for more sophisticated digital marketing. So this is a big part of the story for this year, the current year and beyond. From a store standpoint, you're going to see accelerating unit counts. I think that's the case in the guidance that we offered for 2019. You're seeing a tipping of the balance of new stores overall for the company tipping to the international markets. You should expect that to be the case as we go forward.

And finally, omnichannel, there's been great success in North America with key technology investments in our RFID and PVR, ship from store, buy online pickup in store. These proven successful strategies have yet to be rolled out fully in our international markets. So, making those investments to create a more seamless guest experience, connecting those pools of inventory across channel is definitely a -- priority for us over the next few years.

There we are. Product. So you heard, Sun give a great overview of our product strategies. Certainly, that's a global view and our international businesses will take advantage of it and participate in the strategies that Sun and her team have crafted. In addition to that, there's a few unique things we're exploring from an international standpoint. Currently, Asia fit has been a very successful initiative in -- just a handful of styles, relatively limited part of our assortment, but we can't keep it in stock. It's been wildly successful so as we look to expand that we will explore just how broad across the assortment, the strategy can ultimately be. Regional exclusives, again Sun and her team will explore other opportunities for us to learn from the regions to take creative insights to create not only regional styles, but potentially styles we'd take back for the globe.

And then finally, our omni-guest experiences, so critical that we are able to build guest engagement, acquire guests, we will leverage first and foremost the proven playbook of community that we've developed and perfected in some ways in North America, we will continue to execute that model in our north -- in our international markets, local community invents, ambassador and influencer model, so that is foundational to how we will execute this part of the business. We'll look to amplify that through various forms of social media and digital marketing. The event that we share at the beginning is an example of how we've been able to do that successfully. The digital strategy in general will be a critical part of our international strategy, in Asia in particular, we'll be talking more about that on subsequent earnings calls, so stay tuned.

And finally, from an enhanced engagement standpoint, again there's a lot of success that we are able to draw on from our North American experience, where we've been able to build a guest file, CRM strategy, connect that to more sophisticated data analytics personalization to drive a deeper understanding of how we acquire and retain guests. That is really something that we have yet to fully introduce in our international markets. We're making important investments in the first half of this year in CRM capabilities that will be our first steps. So over the next five years, we'll look to draft half of the success in North America and take those lessons learned abroad.

So those are the strategies at high level that we will pursue to achieve our goal through 2023 of over 30% annual growth rate. And so, what I'd like to do now is just go through some highlights by region and channel just to offer some dimensions on that growth trajectory.

So starting by region. In 2018, you see here our total revenues at \$360 million in our international markets. You see it broken down here in the pie chart in these four groupings, China, Europe, Australia, New Zealand, and then Asia excluding China. Australia, New Zealand actually being the largest of the group with other three regions almost on par. You see how we expect the growth rates to unfold over the next five years to achieve this four times increase in overall revenue. You see China and Asia again, Asia excluding China each representing roughly a third of our international business. You see Australia, New Zealand shrinking significantly as it will be on a lower growth trajectory, but still a very profitable business. We're very happy, proud of the work that's happened in that region with the team to improve its profitability. So it's a business we're very happy with. And Europe will grow faster than Australia and New Zealand, but not as fast as China and Asia.

So hopefully, that gives you some context, some feel for at least directionally where we see the growth as well as the importance of China in the overall growth story.

And then as we look at by channel, again, from 2018, we see e-commerce internationally roughly on par from an e-commerce penetration standpoint to the company overall around a quarter, but we see that growing significantly faster over the next few years than our store business growth. We see e-commerce overall for our -- overall international business just over a third of the overall revenue mix. What I would say in China and Asia, it's probably closer to 40% to 50%, not quite half by 2023, but north of where we are here for the international business overall. So again, that reflects the new investments we're making, the priority that we're setting around the digital part of our business as well as guest appetite, how folks want to shop in Asia and China in particular and how we can better participate in those underlying trends.

And then lastly, profitability. So you've heard us describe how in 2018 all of our international regions with the exception of Europe, were profitable. Overall, including Europe, our total International business was also profitable. We see that inflecting significantly into '19 and through 2023. We're still probably about 18 months away from Europe breaking even. But we're very pleased with the progress we're making there and leveraging the investments that we've made and also the accelerating comp trends and the work that Ken -- I'm sorry that Gareth Pope has done to recalibrate and retool our go to market strategies and our real estate strategies specifically.

And then you see by 2023, the -- all of our regions will be profitable and we will, at that point, the international business will represent 10% to 15% of overall Company earnings and accelerating and inflecting. This is not the height of our aspirations in terms of how the international business will contribute to our earnings. It will likely



always be disadvantaged due to certain structural cross-border costs versus North America. But we can't [ph] close that gap significantly and we will.

And I would be remiss if I didn't mention that all of this is only possible by the great leadership of Ken Lee in Asia and Gareth Pope in Europe. So they've both done fantastic job of building their teams and crafting the strategies that will bring these results to pass. So with that, we're going to close on international.

## Unidentified Speaker

Thanks, Stuart. All right. So we are running ahead of schedule. As we always try to exceed expectations. So we're going to head down for lunch, so we'll show you guys how to get downstairs, same room as the product activations were. And since we're little bit ahead of schedule, let's try to -- let's be back up here at 1 O'clock and we'll start the afternoon session then. All right, thanks, guys.

(Break)

## Operator

I am ready. Please take your seats. Our programming will begin in one minute.

## Stuart Haselden {BIO 17615686 <GO>}

Okay. Hope Everyone had a good lunch. Back for the afternoon. Moving on from international, next topic is enterprise fitness. So it's a very sexy topic. I don't have a video but that in no way diminishes how interesting and important these areas the Company are. In fact, I had a nice chat with -- to analysts and investors during the break around a lot of the things I'm going to mention. So let's get right into it. So this first slide just introduces the notion that there are critical infrastructure parts of our foundation if you will that will enable our ability to scale globally. We're going to drill into each of these but we hold supply chain, technology, people processes and cost structure management as is critical to enabling our success. So in terms of supply chain, we've done a lot of work over the last few years. We are excited at the opportunities that we continue to see in front of us in the area that we're focused on, you see listed here, cost, speed and flexibility. So from a cost standpoint, our agenda here over the next five years is to continue to extend the success that we've seen since 2015 when we initiated our major supply chain initiatives. I'll speak more about some of the details around that in just a bit.

From a speed standpoint, there's a number of programs and processes we're pursuing, process efficiencies in terms of how our design, merchant and sourcing teams collaborate; new technologies that we're investing in, 3D technology to help reduce the time it takes us to develop samples and iterate with them and production geographies, as we look at putting more of our production in the western hemisphere, there are cost benefits as well as lead time savings. So speed is an important part of our supply chain agenda. And then lastly, flexibility. So fabric innovation, being able to commercialize innovative fabrics faster and offer our

designers and our merchants a broader palette in a more efficient way is definitely an important part of how we create that flexibility.

New category capabilities. So you heard a lot of new -- a lot of exciting new categories that we're exploring. Areas like self care that had not been a part of our supply chain capabilities in the past. So we're looking to make investments and build teams at the right scale to help us support the growth that will emerge in these new categories. And then lastly, production practices with our key vendors. We have a number of important vendors that support our strategic programs and how we are able to develop more efficient practices with them in terms of how we stage raw materials and commit that -- those raw materials to production offers us ongoing opportunities for efficiencies and flexibility.

Drilling into supply chain, specifically. So you can see here just a recap from 2015 to 2018, how our gross margin improvement unfolded 680 basis points. Some of the folks that have covered us for a while will recall, we had a 300 basis point program that we were going after aggressively and we're thrilled with the level the success we've been able to achieve. The things that contributed to that -- to those savings, to those efficiencies from 2015 to 2018, you see listed here. Sourcing efficiencies. This is really just getting our house in order in terms of how our design, our sourcing and our merchant teams collaborate. And this was the low hanging fruit back in 2015 that we tackled first. That enabled us to show up with our suppliers as better partners. And through that, we were able to identify new strategies, segmentation specifically, where we could source our products based on the lifespan that they have on our sales floor. In 2014 and 2015, we sourced every product on the same timetable. By looking at the lifespan, if you will of each product, we're able to source products that had three, four-year lifespans within our assortment differently than products that would only be with us for a season, if you will. So that segmentation and how we are able to allocate our assortment and our purchasing by segment and negotiate with our vendors better pricing for those longer lifespan categories led to a significant level of savings.

And then volume. As our business has grown, we've been able to leverage volume pricing improvements as you would expect. So these were the three of the primary strategies that we leveraged to improve our product costs. I would say, in addition to this and you'll hear PJ speak to it in his section, product mix was definitely a tailwind for us. Our largest and most profitable category is women's pants. And as you know, as we've reported, we've done quite well in women's pants over the last few years. That's contributed to the success in our gross margin overall.

As we look forward from 2018 to 2023 and you heard the guidance that Calvin shared with us, our expectations are to continue to drive improvements in our gross margin at a modest level on an annual basis and we'll do that through the continued expansion of our segmentation strategy, the volume pricing opportunities as our business grows that those create. And then lastly, a new strategy that Ted Dagnese and Chris Bonner within our supply chain team have developed is efficiencies within our network -- our DC network, downstream efficiencies. We're in the process of putting a new distribution center outside of Toronto which will help us unlock

efficiencies for Eastern Canada, improve our service offering from a delivery standpoint to our guests and also enable us to capture certain cross border opportunities more efficiently.

So those position us well to continue to drive these product margin opportunities. And this -- embedded in the improvements from '15 to '18 was also a lower markdown posture for the business that we see continuing. We've seen good success with personalization, some of the first wins coming from that team, they were excited to continue to expand and extend that success.

Infrastructure, which includes some of the more exciting areas, like reporting and security, are important for us to ensure that we have scalable systems, we have the right information at the right time, we have secure systems both for our internal data as well as our guest data. And we'll make important investments in our HR systems this year as well to upgrade how we're able to support our people teams.

And that's a nice segue into people processes. So there's been a lot of work that's happened over the last year or two to look at our org structure, to identify how we can grow more efficient and to set motion actions to build on that. Susan Gelinas, our Head of People and Culture is here with us today and she's been on point for all of that work. And I think sort of the bottom line that what we want to take out of that is creating a flexible and durable structure to enable our growth ambitions. Talent, certainly, how we think of talent is likely different than in other companies. The personal development, the leadership development is really an important part of the culture, but nonetheless, attracting the right leaders and the right team members across the business, both domestically in North America and overseas is a critical factor enabling our success. And key people processes. So you heard me mention the new HR system. There are things we can do more efficiently and make investments to help support that so that we can support our people teams more effectively.

And then finally, as we think about cost structure management and our -- and the guidance that we've offered and our commitment to deliver modest SG&A leverage, there are a number of areas where we will drive those efficiencies. Operational efficiencies, as you think about our stores in our digital businesses, we've had important labor projects that have unfolded over the last two years that have helped us grow more efficient and more effective in how our store teams operate. Within digital, even this year, we have launched programs to drill into our digital marketing. And as we have pushed more resources into that strategy, we've identified opportunities for us to grow more efficient in how we deploy those resources, indirect sourcing, it's a program that the company really haven't had. Before 2015, we stood up a team in 2015 that has had good success. We continue to see that as a foundational part of how we manage the broad cost structure of the business. By indirectly we are referring to everything we purchase that is not merchandise, that is not things we sell to our guests.

Overhead management, broad category, we continue to look for opportunities in our home office to grow more efficient from a people standpoint as well as process.

So, these areas offer deep opportunities for us to find ways to free up resources that we can invest in the exciting growth strategies we outlined. The combination of these things gives us confidence that given the low teens, total revenue growth trajectory that we've outlined, we will have enough incremental investment to fuel those core -- this critical growth initiatives and still be able to deliver on this commitment on SG&A leverage.

So again, sorry about not having a video. I'm going to hand it over to PJ now.

**PJ Guido** {BIO 20577804 <GO>}

So, unfortunately I also don't have a video. There are only so many up for grabs. I'm the least tenured member of the management team and I'm also not the CEO. So, we threw out most of the red meat this morning in a press release and Calvin started off by giving you the financial guidance. I'm going to rehash these really quickly and then go into detail behind them.

So, once again, we see revenue growth in the low teens, compound annual growth rate over the next five years. Now, I do want to stop and just the significance of the compound annual growth rate is, in some years, we may be above, some years we may be below, but the objective is, in five years to look back over that period having achieved the low teens growth, that's how we're thinking about it. I hope that's how you think about it as well.

Gross margin expansion will continue with modest expansion. Stuart talked about that. I'll talk about some of the puts and takes in gross margin. SG&A leverage continued modest leverage, modest plus modest, modest gross margin, modest SG&A leverage, equals comfortable operating income comfortably outpacing revenue growth. So we hope to achieve that going forward. EPS growth on par were better than operating income growth. Augmented by opportunistically -- opportunistic share repurchase, we do throw off a lot of cash in this model and the plan does call for a significant cash, so we'll opportunistically look to to return cash to shareholders as we've done the last couple of years. We'll continue to invest in the business with CapEx in the 6% to 8% of sales range and square footage growth low double digit annually.

So one of the questions we always get is how are you going to maintain momentum. And in 2018 we generated a lot of momentum. Coming into '19, we maintain that momentum. We feel really happy about the momentum we're currently seeing. But the answer is it's the continuous innovation that Sun and her team continued to put out, it's the strong guest connection that Celeste and her team have forged over many years, a relationship that that's only growing growing stronger.

And it's also the multiple expansion opportunities, I should qualify that remark, I don't mean PE multiple. I'm not being -- we're not being presumptuous there. We'll leave that up to you, we control, what we can control. But that's the -- the platforms that have been built over the year's under Stuart's leadership that are going to allow us to enter new markets, enter new categories. So really important.

And I know we've been talking about the things in three's, the Power of Three, but I did slip in as CFO, the financial flexibility, which is near and dear to my heart right. So by financial flexibility, we mean continued strong cash flow maintaining a strong balance sheet and just having the dry powder to support the business, to support the strategy to continue to invest.

So I am celebrating my one-year anniversary at Lulu this month. And If I may just throw in, the share price has gone up considerably in that period. I'm not -- I'm not -- Kimberly not I'm not saying it's related to me but I'm just saying. So, at any rate, one of the reasons I feel so fortunate to be here is because of the growth we have had. And we talked about men's, we talked about digital, we talked about international but there's stepped on that tape too -- but there's so much more -- there's so much more. And you've heard of these new categories, it's new markets, there's so -- and growing the core, the continued innovation, there's so many other things about our growth that de-risk this plan and give you give reasons to believe that and give you - give us confidence in the plan we're putting forward.

So just getting into, breaking down revenue by product, region and channel. So let's start with product. So women's the core 70% of the business today as of 2018, men's 21%, other categories accessories less than 10%. So we see men's growing at that 20% CAGR going forward. One of the things that we do that get me excited and that we do want to stress is that the women's business, the core is going to continue, it's going to continue to grow. And we see that growing in the low double-digits and throw in accessories and new categories which which is upside the combination of these three outside of men's growing low double digits, it gives you a lot of confidence that we're going to continue to hit our targets. So and then I would also comment that the women's business as a \$2 billion business, having that growing at low double digit again -- it takes risk as a CFO I like to think about risk. That takes a lot of risk out of the plan.

But you end up in a place where we're less reliant, in 2023 you're less reliant on any one particular category. So cutting this by region again North America close to 90% of our business, Asia Pacific and EMEA making up about 11%. When we talk about international quadrupling, that's sort of eye popping, but if you dissect it really it's -- it translates into just over 30% CAGR, which is lower than what we achieved last year. So when you look at it that way and the compounding effect, it's much -- it just puts things in context and it's very achievable. So then adding on top of that, the North America business, which is approximately \$3 billion business growing at low-double digits, you get to a point where North America still meaningful, but international becoming a much bigger part of the company.

Cutting this by channel, so stores roughly 65%, e-com 26%, other seasonal outlets less than 10%. We see 20% plus growth CAGR in our e-com business, with our store business in proximity to \$2 billion business. I like to look at things -- think of things in dollars and cash growing at low-double digits, get you to a place where e-commerce playing a much bigger role, but stores just continue, and the two, they'll feed off one another.

So shifting gears to profitability. So I do want to drill into this a little bit. So when we talk about modest expansion and gross margin, there's going to be several puts and takes, okay. So Stuart talked about product cost and how that -- there's still upside there albeit on a much smaller scale than what we see in the past, but that's a tailwind. Channel mix, the e-com P&L has a different structure than the store P&L. It's not burdened by rent depreciation, so that as e-com grows faster and penetrates, we'll see a tailwind on channel mix.

Market mix, so as we penetrate internationally, again, international the P&L, the rent depreciation, rent -- particularly focus on rent, this is much higher internationally. So there'll be some pressure there. And then category, as Stuart mentioned, women's pants is our most profitable category, as men's grows, as other categories grows accessories. There'll be some pressure based on category mix. They'll -- I'll use the men's pants business as an example. As men's pants grows, we will scale that use men's pants business as an example. As men's pants grows, we'll scale that, and there'll be the big cost efficiencies there. But it's still below where women's is today. So we'll see a little bit of pressure based on category, but net-net, we do see modest expansion going forward when you, kind of, add up all the puts and takes.

SG&A leverage, modest leverage. We've made some big investments over the last couple of years in talent and infrastructure. So the focus will be on leveraging those fixed costs going forward. Channel mix, again e-comm not without store labor, its margins are higher. So as we penetrate into the e-comm, that will be good guy. And then market, we talked about the international P&L. It's -- the profitability is not where North America is. Again, we'll be working towards increasing that. But initially it will be a headwind. But again net-net, we see modest leverage going forward. And the combination again, operating income outpacing revenue growth.

So in terms of capital allocation, we're going to continue to invest in the business and fuel our strategy. Our priorities are expansion opportunities by product innovation, investing in different markets and continuing to invest in channel, our e-comm business and also putting the platforms and the infrastructure in place to support the business, so new stores' renovations, optimizations, like supply chain investment and IT, which Stuart talked about.

In 2018, we generated over \$700 million in cash from operations, which is a meaningful number and that will continue to grow. We put back into the business capital investment of just over \$200 million, so -- which is appropriate and allowed us to do all the things we wanted to do. But obviously, there's a nice gap there and that's free cash flow, right. So we'll continue to generate free cash flow going forward and again, we'll opportunistically look to potentially return that to the shareholders. We've -- last year, we returned close to \$600 million via share repurchase. Year-to-date, we've returned roughly \$165 million. So again, there'll be those opportunities going forward.

So in terms of our global store footprint, so we are starting in North America with 349 stores as of 2018. The way this breaks out globally, we see the square footage growing in the high single digits in North America. And we know what you'll see in

North America is less unit growth and more square footage growth and that is partly due to our co-located strategy where we expand stores. In Europe, 21 stores will look to grow square footage in the mid-teens. APAC, ex China, 55 stores, growing at just over 35% and 15 stores in China, where -- we'll be looking to grow square footage by over 40%. So obviously the square footage skews to international and specifically to China in a bigger way.

So, in closing, hopefully the investment thesis here is exciting, I know, I'm certainly excited about it. You have this powerful business model that is leading the marketplace by maintaining a model that is relevant to an evolving guest who values, connection, values experience, values innovation, values community. So again, a model that is certainly in touch with its guest. You have a growth company that's getting more profitable as it goes, which is a great combination. There's multiple growth drivers not just the Big Three but also the other ones we talked about. And again just to reiterate, we have the financial flexibility to certainly support our strategy, but also to take advantage of opportunities that may arise, make additional investment and once again, reward shareholders.

So that is it for finance. And then I think we're going to have Stuart, Celeste, Sun, Calvin and myself come up for questions.

## **Operator**

Here we go. Hi guys. We have about half an hour for Q&A to get some lights in the audience. So, we'll do a call on you. Wait until you get the mic. Just state your name and your firm and then ask your questions.

## **Questions And Answers**

### **Q - Rebecca Duval {BIO 17768810 <GO>}**

Hi. Sorry, I just had a loud mouth. I couldn't (inaudible). Rebecca from BlueFin Research. My question is on the gross margin expansion, you guys have made a lot of progress over the last few years and a lot of that was due to really not having a supply chain in place, right and kind of creating one for a company of your growth. And so, if you look at product costs as your biggest bucket for the supply chain for the gross margin expansion, is that due to volume or where are you I guess in terms of like the innings of platforming raw materials, not airing as many goods as you used to, negotiating by narrowing down your vendors. I mean I know you've been doing that work over the last few years, but where would you say you are in terms of that inning?

### **A - Stuart Haselden {BIO 17615686 <GO>}**

That's a good question. So, -- and you're right. We were in a tougher place few years ago. It's been a big strategic focus. Ted Dagnese, our Head of Supply Chain has built a real world-class team and he has done amazing work in every part of the supply chain. But the elements of the strategy is it will continue to drive product costs improvements or the segmentation strategy, and I'm hoping I'm doing a good job of

describing this. But essentially, products by being able to break down our assortment into products that inherently we should be able to source at a lower cost and putting a program in place to capture those opportunities is the essence of it.

Where we began with that, years ago, Ted has continued to refine it, improve it and identify ways how we can -- identify ways to extend those opportunities by digging in deeper and deeper with our vendors in partnership to identify what their true costs are, how we can be a better partner to them and how we can share with them the benefits of those more efficient practices. Volume is the other drivers I mentioned. That will continue based on the low teens, growth trajectory that we've outlined and the growth rates that PJ talked about, they will continue to offer us opportunities into the future for volume pricing benefits.

**Q - Rebecca Duval** {BIO 17768810 <GO>}

So what about if -- where are you like in terms of staging raw materials, I know that that was still something you guys were trying to obviously turn, being able to order closer to the sales data and that's something you guys have been working on now. And now that you kind of have new established raw materials, it fits. Do you feel like you're in a better position that that's also part of the strategy in terms of the gross margin expansion, not just segmentation.

**A - Calvin McDonald** {BIO 16657186 <GO>}

That has been part of the strategy and it has been reflected in the benefits that we've captured. For a lot of companies, that strategy is aimed at reducing markdowns. In our business, markdowns are a lower part of how we conduct our business. So it's a smaller opportunity for us in comparison to some of the other more traditional retailers but nonetheless it has been a benefit, we have captured meaningful results from that and we continue to explore how to expand on it.

**A - Celeste Burgoyne** {BIO 20012334 <GO>}

I would say just some future opportunities too is we've mostly on the raw material side really looked at raw materials for men's and raw materials for women's and not we're really living into some of these activity strategies. We see a real opportunity be able to share some raw materials across men's and women's and really be able to use scale to negotiate prices down. So that's something that we see as a future opportunity for us.

**Q - Robert Drbul** {BIO 3131258 <GO>}

It's Bob Drbul, from Guggenheim Securities. I guess one question that I have is on the international expansion, can you just address how you think about a higher operating costs with the stores, the lower brand awareness, the need for higher investments in the brand and advertising and marketing and just sort of know how you plan to really approach and attack markets especially like China with just the 15 stores?

**A - Howard Tubin** {BIO 6382352 <GO>}



Yeah I'll take that one. The cost structure challenges in our international markets and in China specifically fall into a few different areas. If you look at the four wall store cost profile rent and labor cost more. And that is just a fact versus North America. As you look below that to the overhead operating costs, we have made important investments in the team and the capabilities regionally. And part of what we're now seeing in terms of reaching profitability is the economies of scale as the business grows and we're able to leverage those investments. And as you mentioned, part of our -- one of our important goal is driving brand awareness regionally. We will leverage, as I mentioned earlier, the tried-and-true community strategies and we will adapt those to regional tastes and opportunities and look to amplify them via new investments in digital, in digital marketing. What we've seen success with in North America with digital marketing as well as with CRM, new data analytic capabilities are all in front of us in international. And so there are investments we will make. There are investments we will leverage, and there are some fundamental elements of operating overseas that, in the cross border costs, from an inventory standpoint, are all real. And the comment that I offered in the presentation that we see that improving, but likely will be structurally lower than North America is how we wind this up.

**Q - Robert Drbul** {BIO 3131258 <GO>}

Hi. Thanks for a great presentation. Can you comment a little bit more on footwear? That's obviously a pivot in strategy to take that in-house and directly operate it. It's a different competitive set. Just talk about how that fits into the accessories and other categories you talked about and how you expect to position that category? Thank you.

**A - Stuart Haselden** {BIO 17615686 <GO>}

Great. Thank you. I think the first thing that I just want to sort of stress is that when we look at the five-year and the numbers that we shared, they're driven out of the core and our ability to expand the categories that we're competing in today and we know we can go even deeper in. And as you saw in PJ's, the dependency on new is very minimal. It's really quite immaterial in our ability to achieve our target. We shared self care and footwear as examples of some categories that we've tested and had good response with our guests. Self care we're moving. Footwear, we know that the guest responded. We learned what we needed to learn how to commercialize it, and we believe we see opportunity that we can provide through our unique science of feel a solution for the guests that doesn't exist today. It's going to be limited and small when we test, and it's not something that we're going to be in market anytime soon with. And we'll share plans at a later date. But definitely, it is something -- we understand the competitiveness of that and we want to enter with something that is unique, defined and focused. And that's what our plan will be. And it'll be done as a test and learn at a later point in time and we'll share more on spend.

**Q - Kimberly Greenberger** {BIO 3277763 <GO>}

Thanks so much. Kimberly Greenberger, Morgan Stanley. Stuart, my question is on international. It looks as though the entry into Asia, let's say Greater China has been so much more accelerated than the initial entry into Europe, or rather should I say the reception in Asia has been so, so very strong to the theory early days in Europe.

I'm wondering were there some key learnings that you had in Europe that informed the stronger entry into Asia? Is it just a different market and a different response to the brand, if you can just talk about those two geographies and any key learnings?

**A - Stuart Haselden** {BIO 17615686 <GO>}

Yeah, it's a great question. I think fundamentally, the market dynamics are very different. There is just a more robust appetite for, I think, Western brands generally in Asia, and there is a growing health and fitness trend in China supported by the Chinese government specifically that is helping, sort of, add to the tailwind for businesses that participate in those markets. Those factors don't exist in the same way in Europe. We had some painful lessons in Europe where we did abandon in certain cases, our proven showroom model, open stores in locations based on, sort of, attractive real estate where we hadn't yet adequately developed demand, brand awareness in the community in those markets. And so -- and folks that have paid close attention over the years, we've had some write-offs to stores in Europe. And what's remarkable is these stores are now performing well, and the questions that we bring back to the team in Europe is like what's changed.

And I alluded to it in my earlier remarks, brand awareness in Europe has improved based on the strategy that we then shifted away from, sort of, a real estate strategy to more building brand awareness in the UK via London specifically and then, retooling our market entry to take advantage of the lessons learned from the showroom strategy. Gareth Pope introduced a new version of the showroom strategy for Europe where we've not had great success with that. He's given us confidence to accelerate our store openings. You'll see more store openings happening faster in Europe as a result of -- especially the pause that we took for some period of time for us to assess what we -- where we've had missteps, retool our model and then, come back to the market. Even with that though, I would say there was other broader macro market dynamics that I mentioned between Asia and Europe, still give an advantage to our Asian businesses, our Chinese businesses in terms of the pace of growth.

**Q - Mark Altschwager** {BIO 18088928 <GO>}

Great, thanks. Mark Altschwager from Baird. I also wanted to ask a question on margin. I guess just more broadly, how should we think about flow through to the extent you drive any revenue upside from the targets that you outlined. I think over the last couple of years, have you -- as you've beaten your plans on the top line and on gross margin for that matter, you've taken that opportunity to reinvest more aggressively in the business. But is that how you're thinking about it moving forward or is the business had a scale at this point where you would expect to see maybe a bit more flow through?

**A - Stuart Haselden** {BIO 17615686 <GO>}

Maybe I'll start with the answer and then I'll let PJ kind of come on top of what else I'll suggest or I'll offer. Where we've been in the past has been a commitment to the earnings recovery, the margin improvement. We made investments in '15 and '16 and '17 in particular around supply chain and technology that we just had to. After we hurdle those critical investments, we returned to our goals of delivering SG&A -- modest SG&A leverage on an annual basis and that's what we did in 2018, and that

doesn't mean every quarter you're going to see SG&A leverage or flow through, but what it does mean for the year, we will deliver on that commitment.

**A - PJ Guido** {BIO 20577804 <GO>}

And the only thing I would add to that is, as we've seen results from incrementally investing in SG&A, whether it's a digital marketing efforts or investing in more seasonal stores, we're using those funds freed up from good performance to continue to fuel top line and we've seen the result and it's a strategy we think, again, opportunistically in a disciplined way to continue to serve.

**A - Calvin McDonald** {BIO 16657186 <GO>}

And I'll just finally -- I mean, this is what I touched on in terms of the momentum to Stuart's point. We will always first meet the guidance and the commitment that we have out of where we see opportunity. We're a growth business, we're an innovative business and we have lot of opportunity to continue to test and learn, and we're going to be opportunistic and make those to continuing to push the business forward. We'll look at those.

**Q - Jay Sole** {BIO 16089358 <GO>}

Thank you. Jay Sole, UBS. Calvin, I'm interested in your view on where the boundaries of the brand are, because there's tons of opportunity just doing running and some other activities you talk about, but ball sports has always been a question in things like tennis or soccer. Have you thought about a way to extend the brand into those areas as you think beyond this five years and into maybe even looking at 2030 things like that?

**A - Stuart Haselden** {BIO 17615686 <GO>}

Absolutely we've done a lot of work in the last few months in understanding where our current guests' sweat, what our assortment is in the activities in which they choose to sweat and making decisions of where do we want to play and where we're choosing not to play. And certain categories like the three we have identified, the yoga, train and run are the three key categories where we've identified, we will win it. And that means all season, all year long, across all channels, across all needs of that guest we want to be their destination for their needs -- their sweat needs.

We also know though that our loyal guests sweat in other activities. And some of our products are versatile, designed for used for and used for and conserves that need and others we need to design more into more frequently, tennis being one that you've identified, swim being another, hiking, being another. There are other activities that we've identified where we know our current guests sweat in and we want to make sure that we are there to service their needs.

Now on those we may offer them sometimes in-stores, always online, certain locations always in-store depending upon the seasonality of the store. But in those we've definitely looked through the lens of our loyal guest. There are activities that we've elected we're just not going to play in. We have no road map to play in baseball, we have no road map playing football, hockey, soccer.

Now there's a lot of men's and women's gear that are versatile and you can play in our Metal Vent and our pants or shorts. But specifically designed for, there are activities that we've set for now we're not. And we've looked at specific design activities that we will. And what we're really excited is I would say other than yoga, there's a lot of opportunity to grow the core and expand by focusing on our already loyal guest as a means of fulfilling their sweat needs on a more consistent basis. That's going to really drive that growth as we leverage bottoms and others to acquire new guests and then trade them up and trade them across into the categories, that we're designing into more consistent basis.

**Q - Jay Sole** {BIO 16089358 <GO>}

Got it, thank you.

**Q - Unidentified Participant**

Thanks for the great presentation. I'm hoping you can talk about pricing as an opportunity for the brand. And then, I'm also interested in hearing a little bit more about the loyalty program. It sounds like it is not an insignificant revenue opportunity. One of the compelling things there is a lot of value to the consumers actually coming from third parties, are there other opportunities to leverage the strengths of the brand and partnerships and so forth to monetize? Thanks.

**A - Stuart Haselden** {BIO 17615686 <GO>}

Great. Did you did you want to take pricing and take membership?

**A - Calvin McDonald** {BIO 16657186 <GO>}

Sure, I'll take pricing. And in general, we actually see that there is opportunity for us to have a wider band of pricing. Like I think today, we find a little bit better, but if you look in the past, we really stayed in kind of like that mid zone, where it was a pretty narrow price bucket. And as we infuse our product with more innovation, we do see that there is an appetite and an elasticity to our brands, so that we can really from an entry price point to a more premium price point, really play in a broader range of price points. And I'd say, the best expression of that really is in our outerwear business. I'd say, last year 2018, we probably capped out at about \$598, really got a lot of feedback from our educators as well as our guests that we probably could have maybe gotten a little more for those pieces just based on how much innovation and how much we built into that fab -- into some of those designs.

So going into 2019, we took at some of the -- look at some of those insights really building in solutions for like three in one outerwear. And inching up the prices, just to make sure that we're still being honest with ourselves around the price value equation for our guests. So you'll start to see where there's more innovation, where we believe the guest perceived to be more value that there is AUR opportunity.

We've also seen it actually in our core category of pants. So if \$98 is our opening price point when we layer on more innovation in our fabrics, she will pay us more for those knowing that there is more technical features in our products, so we've really not seen any price resistance in some of those categories. And then, I would say,

conversely when you have categories like accessories where you are trying to build baskets and increase UPT, we have opportunity like in our headbands or scrunchies or things like that. So like make sure that we have some sharp entry price points that can be create gateway product for younger guests to enter into the brand.

**A - Celeste Burgoyne** {BIO 20012334 <GO>}

And on membership, I would just share that we're really excited about the opportunity to connect deeper with our guests and what it could create in terms of another revenue stream. We are in test mode, so I'm not going to get into any economics. But trust us when we say that as we're looking at these tests, we're really looking at not only as we are looking at these different tasks, we are really looking at not only the guest experience, but also the economic model and how we use it to continue to grow.

**Q - Michael Binetti** {BIO 20477904 <GO>}

Hi, thanks. Michael Binetti with Credit Suisse. So, Stuart, you answered this a little bit earlier, but I want to ask maybe a little different way, but your guidance for the international revenues is to quadruple and if we anchor ourselves in the comment you made recently that international recently just turned breakeven or turn profitable, I think that roughly gets us to about a 1,000 or 1,500 basis points margin improvement over the five-year period, based on your 10% to 15% range for international that you gave us. So you mentioned that there was some fixed cost leverage, you mentioned that rents and labour have some different components, but that is a lot of margin expansion for international while growing that fast. So, can you maybe point us to some of the components that you think will, I guess, be the most leverageable as we watch that business? And I guess another question is at 2023, where will the margin opportunity be at that? What will not have been leverage? At that point, there'll still be very leverageable for you.

**A - Stuart Haselden** {BIO 17615686 <GO>}

Yeah, I think the obvious is that the overhead investments that we make regionally. As those businesses scale, there will be leverage on those costs. The mix of the business and it kind of goes to PJ slide as well as we've looked at over index in our digital business that carries a benefit from a mix standpoint. And otherwise, I think it's scale. It's gaining scale. It's -- as we look at the granular plans over that period store-by-store, market-by-market that and we'll see improvements even in the store models, as we learn more, as we gain efficiencies regionally, that will help us improve the four-wall performance of those stores. We're seeing that significantly in Europe where the stores have been slower out of the gate as we talked about earlier.

And so, as we gain velocity in the different channels, there's opportunities for margin improvement. And then, we'll participate in the overall Company margin improvement programs that PJ outlined. And looking forward, I think it's continued scale. It's continuing to drive the e-commerce penetration even further and again, continuing to participate in the overall Company programs.

**Q - Rafe Jadrosich** {BIO 16894924 <GO>}

Thanks. Rafe Jadrosich, BofAML. When you look at your China business, can you talk about how important platforms like T-mall will be to the growth outlook? And then, also if you could just talk about how the stores in China compare to the US in terms of the product mix and then gender and customer mix.

### **Q - Unidentified Participant**

Sure, I'll start with the first one or the -- I'm sorry, the latter question will come back to Tmall. On the assortment it is largely a global assortment, we tailor that as we do in North America to the differences that we see by market in our international business. So the assortment is largely similar at this point as I mentioned we're beginning to take advantage of Asia fit, within women's in particular and looking to see how far we can take that across the portfolio, the assortment.

In terms of the gender breakdown, it's -- there tends to be a little higher in Asia, a little lower in Europe. And we recognize an opportunity that we're exploring how to take advantage of whereas we're not yet known in a lot of places at all. So therefore, we're not known yet as a women's brand, this is an opportunity to show up, and avoid some of the challenges that we have in North America and present ourselves as a more dual gender brand.

That's so work for us in front of us to really capitalize on that approach. For the most part, the stores have been, the strategy has been more like North America than North, so that's something we're exploring. And on the Tmall side, it's been -- I think that started with 700 million users on Tmall, I mean, it's double the population of the US and Canada combined or something close to that. So it is a major part of the e-commerce landscape in China. We appreciate the opportunity for us to accelerate our business on Tmall, we're also very -- we take close consideration of how we want the brand to show up as a premium full price business. And so that presents some obstacles with Tmall but we've been successful I think in navigating that. Tmall will continue to be a meaningful part of our e-commerce position, but we are laying plans now to grow WeChat and our own .cn site to a greater degree where we have more visibility a greater experience for our guest, greater level of engagement for us from a CRM standpoint. And so we'd like to tip the mix to those other channels as we go forward.

### **Q - Jamie Merriman {BIO 16135959 <GO>}**

Thanks. Jamie Merriman from Bernstein. Stuart, you just talked a little bit about the gender mix in China. So just to pick up on that. Can you talk about maybe back to North America what the gating factor is on the number of co-located stores that you're rolling out? And if you're not rolling out that sort of dual-gender store internationally now, why not?

### **A - Unidentified Speaker**

Yeah, I think it's a great question. And I think the initial strategy was formulated and set in motion before the co-located strategy in North America was fully formed. And so a lot of those early store openings was just following the same playbook. Since really, 2016 and into 2017, we've developed the co-located strategy. We've begun to take that into consideration for our new openings in our international markets to

begin to shift larger and more dual gender. But what I want to acknowledge is we're not fully where we'd like to be in that effort.

**Q - Simeon Siegel** {BIO 17355931 <GO>}

Simeon Siegel, Nomura Instinet. Probably not a great last question. But just out of curiosity, can you talk about any cadence within those five years on the gross margin piece? So as you think about how those bubbles will change, so the market, the product mix, I guess get larger in later years, maybe the gross margin is more powerful in the earlier years, but any -- how are you thinking about that in the context?

**A - Howard Tubin** {BIO 6382352 <GO>}

Yes. I mean I think the general cadence would be -- we have momentum on the product side, on the cost side. We'll continue to push into that. And I would say the timing of it, we'll -- we'll hope to always be achieving scale, right, as we get bigger and bigger. But I think that will be weighted towards the earlier years. And I think, as penetration increases internationally, we'll see the pressure I talked about on gross margin probably closer to the outer years. And then e-comm, somewhere in the middle, so.

**A - Calvin McDonald** {BIO 16657186 <GO>}

Thanks. Thanks, guys. You've got to wait. I've got to send us off.

Howard, we've rehearsed this. What a stumble drop the ball moment. Wow. Come on. We're having tea and coffee and snacks. There's an aisle. I'm just going to do a quick wrap up. And I started off the day talking about the opportunity that I saw -- we saw for Lululemon as we looked forward celebrating 20 incredible years, but really recognizing where we are and where we can go and where we will go is super exciting.

I also talked about discipline, and one of the questions I had earlier, that if I could do a redo in terms of answering of what are the lay-ups and what are the more challenging aspects of the five year plan. It's probably less about a particular initiative that we'll achieve as much as it is in the discipline of making sure that we remain focused and prioritize the things that are going to move and have the greatest impact, because of the amount of opportunity that we have as we look across the brand and the opportunity is one of the areas.

The vision that we shared with you, being an experiential brand to ignite a community of people living the sweatlife for us is is very inspiring. And what do we mean by being an experiential brand, the first thing is what is so cool about Lululemon and we were chatting at lunches, I'm not ready yet to define who we truly are, what is the brand, because I think the brand has such an opportunity to be more. We know it's more than just an apparel brand.

We believe being an experiential brand is a incredible vision, a forward thinking, a pushing of who we're going to be and how we express that through retail, how we

express that through events, how we express that through social media, is a big opportunity to something that is truly unique in igniting the community of those people living the sweatlife. And what is the sweatlife, we define it internally, but it really is what you see happening, the trends that I shared with you today it's the energy you get when you show up in Hong Kong or Beijing or Shanghai or even in Europe and London, it really is the fact that there is a balance that's happening between people wanting to be fit, people recognizing the connection between mind and body and the power in that connection. That's what we're talking about.

And this brand is so beautifully positioned to have an authentic voice in that. And we look at where we are today and growing into that vision. The Power of Three, those three strategic pillars is where we're going to put the focus, put the attention to really innovate into that. So around innovative product. I mean how amazing is that we're sitting here today I can share with you the loyalty engagement scores of our loyal guests, the net promoting scores of our guests. Yet, we have so much opportunity with our core. We have so much opportunity still with our women's business not to mention doubling our men's business. Then we have such an opportunity with our store business still, yet we can double our digital, and obviously with North America, we are far from done and we can quadruple our international business.

So the opportunity of focusing on core, building out that expansion and yes, test and learn on a few new and when some hit, we're gonna be able to accelerate that. But nothing that we share today is rooted or overly committed on any of the newness that's going to be incremental. It really is rooted in and we can do more with what we know today. We have a loyal guest who loves this brand and we can service him and her in a much more effective way across how they sweat to and from and the services and the life that they're choosing to live, and we can lean into that, which is really what inspires us and gives us great confidence in the vision, and the opportunity and the potential for this brand.

So with that I want to thank you for taking the time today and I know we'll hang for a couple of questions but thank you everyone, really appreciate it.

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