

Lululemon Athletica Inc Annual Shareholders Meeting

Company Participants

- Glenn K. Murphy, Executive Chairman of the Board
- Martha A. M. Morfitt, Independent Director
- Shannon Higginson, Unknown
- Stuart C. Haselden, COO

Presentation

Operator

Good morning. Welcome to the lululemon Annual Meeting of Stockholders. I would now like to turn the conference over to Glenn Murphy, Executive Chairman. Please go ahead.

Glenn K. Murphy {BIO 3227772 <GO>}

Thank you, operator. Good morning, everybody. Welcome to lululemon's Annual General Meeting, our 11th Annual General Meeting. And by the way, for a fun fact, that's our -- we celebrate our 20th anniversary this year in September. As the operator said, I'm Glenn Murphy, Executive Chairman of the Board. And as I'm sure you've figured out by now, we're holding a virtual meeting. All shareholders are going to vote online and we'll be taking questions at the end of the meeting. So it's all being done through webcast. The board is all here today with me as well as some key members of management. So from the board, which is -- as representing your shareholders, your board is made up of Marti Morfitt, who's our Chairman of Audit, celebrating her 10th year, by the way, on the board.

Martha A. M. Morfitt {BIO 1815099 <GO>}

Hi.

Glenn K. Murphy {BIO 3227772 <GO>}

Michael Casey, our Chairman of Comp Committee; David Mussafer, Chairman of Nominating and Governance Committee and also our Lead Independent Director; then the rest of the board is made up of Emily White, Kathryn Henry, Tricia Patrick; Robert Bensoussan and Jon McNeill. From management, we have Stuart -- sorry, just one second. From management, we have Stuart Haselden, who's our COO. And you'll be hearing from him later on; Shannon Higginson, Senior Vice President and General Counsel; and Erin Nicholas, Corporate Secretary. And I'm sure the shareholders will agree, Erin will act as the secretary for the meeting this morning.

So here is our agenda for today. I'm going to make a few remarks on behalf of the board. And then I'm going to hand the call over to Shannon, who's going to go through the formal part of the AGM. Then, Stuart is going to give us the results for the full year 2017, with some color to that and talk about Q1 2018, the results, by the way, which we put out last Thursday. And for all intents and purposes, were very well-received by analysts and investors.

So my first time as Chairman of the Board. And let me just set the context of the comments I'd like to make and then we'll get through the formal agenda. So it's clear to the board and I'm sure to people on the phone that 2017 got off to a bit of a slow start. But the board was really proud of the management team who took all the corrective measures they need to take and actually demonstrated to us and hopefully the people on the phone a high level of grit and determination by taking those corrective measures. And when the year was done, we were able to produce revenue growth of 13% and EPS growth of 21%.

So the board is very supportive of the management team's view of the strategic direction of the company. So representing the shareholders on the phone, we spend a lot of time with management. We spent time with them yesterday as well as today. And the strategic framework that we're supportive of that's going to create incremental shareholder value for all shareholders. The foundation of the work the management team is doing is really grounded in this commitment to continuous improvement. I mean, any great business understands they're going to have strategic initiatives to put forward. But if your foundation isn't strong, you can't layer on new ideas on top of foundation that isn't continuously being improved upon. And our management team understands that.

On top of that foundation, some of the initiatives that the board is very supportive of is the need for the company to extend the categories beyond its core. We see a real opportunity to create value in that area of looking at categories like beyond accessories into maybe footwear down the road, extending categories beyond the core of the company. Secondly, we believe that we have a business that can be taken globally. We're just in the early stages now in some countries in Europe. And obviously, we are in China and Japan and Korea and Australia. But we see a real opportunity for this brand to be taken around the globe.

I'd say, thirdly, we have embraced the use of data analytics in the business. And as we're going to create more shareholder value, one of the ways is to embrace new tools to drive that shareholder value. And that's going on in the company right now. And lastly, the management team really wants to create competitive advantages. And competitive advantages for us are in a couple of areas, everything else I talked about on strategic initiatives but some competitive advantages for us are in digital and in channel innovation.

So those 5 initiatives, again, layered on top of a ever-strengthening foundation for the company, are critical for us creating shareholder value. So I'm looking forward to coming back next year at this time and reporting on how exactly did the management team do, what areas do we feel good about, where do we still need

improvement because the one thing you need to know, even though Q1 was an indicator of a business that's gaining momentum and starting to gain market share, that the Board of Directors and the management team believe there is so much more to do at lululemon.

With that said, let me pass the call over to Shannon Higginson, who will take us through the formal part of the meeting. And I'll come back afterwards to answer some of our questions.

Shannon Higginson {BIO 21411487 <GO>}

Thanks, Glenn. Lou Larsen of Broadridge Financial Solutions has been appointed to act as the Inspector of Election for this meeting. Representative from our registered public accounting firm, PricewaterhouseCoopers LLP, are also attending today's meeting and will be available to answer questions concerning our financial statements during the question-and-answer period at the end of the meeting.

You should be able to see on your screen in the virtual meeting portal a text box where you may submit questions which you may do at any time prior to the end of the meeting. The record date for voting at this meeting was the close of business on April 11, 2018. The secretary has delivered an affidavit of mailing to show that notice of this meeting was given and the inspector of election has confirmed that the majority of the shares entitled to vote at this meeting are present in person or by proxy. Accordingly, a quorum is present and the meeting is duly convened for transacting the business properly before us.

Information on the matters to be voted on at this meeting are included in the proxy statement previously given to stockholders. It is 11:07 a.m. Eastern time and the polls are now open for voting. The matters to be voted on include the following: Proposal 1, to elect 3 Class 2 directors to hold office for a 3-year term and until their respective successors are elected and qualified. The Board of Directors has nominated Marti Morfitt, Tricia Patrick and Emily White, each of whom is a current class 2 director, for election as class 2 directors. The Board of Directors recommended a vote for the election of each of these nominees.

Proposal 2, to ratify the selection of PricewaterhouseCoopers as our independent registered public accounting firm for the fiscal year ending February 3, 2019. The Board of Directors recommended a vote for this proposal.

Proposal 3, to approve an amendment to our certificate of incorporation, which provides the board the power to adopt, amend or repeal our bylaws. The Board of Directors recommend a vote for this proposal.

Proposal 4, to ratify amendments to our bylaws previously adopted by the board, including A, to eliminate a conflict between 2 provisions regarding the location for the annual stockholder meeting; B, to change the advance notice provision for stockholder nominations and proposals; C, to authorize the board to utilize a cochair leadership structure when appropriate; D, to provide for majority voting for director

nominees in uncontested elections and implement procedures for incumbent directors who do not receive a majority vote; and E, to designate an exclusive forum for certain litigation. The Board of Directors recommended a vote for the ratification of these amendments to our bylaws that were previously adopted by the board.

Proposal 5., to approve on an advisory basis the compensation of our named executive officers. The Board of Directors recommend a vote for this advisory proposal.

If you previously voted by proxy, you do not need to vote today, unless you wish to change your vote. If you have not previously voted by proxy or if you wish to change your vote, you may cast your vote using the link entitled Vote Now on the right-hand side of your screen.

(Voting)

It's now 11:09 Eastern time and the polls are closed. Based on the preliminary tally provided by the Inspector of Election, a sufficient number of shares have been voted as follows: To reelect each of Ms. Morfitt, Ms. Patrick and Ms. White as class 2 director; to ratify the appointment of PricewaterhouseCoopers LLP as our accounting firm for fiscal 2018; to amend our certificate of incorporation; to ratify each of the amendments to our bylaws that were previously adopted by the board; and to approve on an advisory basis the compensation of our named executive officers.

The final voting results are subject to final counts certified by the Inspector of Election and will be publicly disclosed in a Form 8-K to be filed with the Securities and Exchange Commission.

The formal portion of the meeting is now adjourned.

I will now turn the meeting over to Stuart for some remarks about our financial performance in 2017 and our performance to date in '18.

Stuart C. Haselden {BIO 17615686 <GO>}

Thanks, Shannon. Before I begin, I want to remind everyone that a reconciliation of GAAP to non-GAAP measures is included in our Form 10-K and Form 10-Q and our earnings press releases. Fiscal 2017 is a strong year for lululemon, with our results keeping us on track to achieve our ambition of \$4 billion in revenue in 2020.

Key financial highlights for 2017 include a 13% increase in revenue, a 7% increase in total comparable sales and a 100 basis point increase in adjusted operating margin to 19%. These results were driven by new stores and new store formats, product innovations and enhanced e-commerce offering supported by our strong brand momentum and successful community and brand activations. With regard to stores, we opened 46 net new lululemon-branded company-operated stores, including 30 in North America, 14 in Asia Pacific and 2 in Europe. In product, I highlight -- I'd like

to highlight the launch of our Everlux fabric and light bra for women and the expansion of our ABC pant franchise for men. In digital, we successfully improved our online experience through upgraded visuals, added video content, more intuitive navigation, enhanced storytelling and integration of our ivivva business.

Turning now to Q1 2018, we are very pleased with our performance. Just last week, we reported our strong results for Q1. And I direct you to our investor site for all the details.

I'll just highlight a few headlines from the quarter now, including -- the results have included a 25% increase in net revenue to \$650 million, a total comparable sales increase of 19% on a constant dollar basis, comprised of a comparable store sales increase of 6% and e-commerce increase of 60%. A 400 basis point increase in operating margin compared to the adjusted operating margin for Q1 2017 and diluted earnings per share of \$0.55.

In Q1, we celebrated International Women's Day with events in key cities around the globe, including Washington, D.C., Melbourne and London. Also in the quarter, we delivered on a commitment we made last year to achieve pay equity for women and men across our organization by the end of 2018, nine months early. Nearly 80% of our workforce is comprised of women and we knew this was simply the right thing to do and we intend to maintain this standard moving forward.

We're successfully executing on our strategies and seeing consistent results across several key parts of the business that are now extending into Q2 and further setting the stage for us to achieve our 2020 goals.

The path we're taking to achieve these goals includes product innovation across categories with significant opportunity remaining in the men's area in particular; expanding the lululemon footprint in both North America and our international markets; and continuing to accelerate our digital business.

At this point, we will take questions from shareholders. Please submit your questions through the virtual meeting portal.

Questions And Answers

A - Glenn K. Murphy {BIO 3227772 <GO>}

Thank you, Stuart. We actually have 2 questions in the meeting portal. The first one is regarding the selling of products with down in them. So lululemon does sell products with down, it's 1% of our products, by the way. But the question is, lulu knows -- "Does lulu know that animals suffer in the production of its down items. So when will it stop selling them?" So as I said at the beginning, we have 1% of our products in down. We actually are certified today with responsible down standards. So the company has been certified. With that said, we're not the kind of company that hides behind certifications. I think we always try to either engage with

stakeholders or in some cases NGOs and listen to what people's concerns are. While it is only 1% of our assortment, we are actually certified and we stand beside the certification we have. I think this is still a conversation we're willing to engage with any shareholders to understand exactly what their concerns are. Could we do better? We make no promises but we're willing to have members of management, which we're willing to talk to the person who submitted the question, engage with people in our supply chain, understand what their concerns are. But I don't want to again overset an expectation, we do believe we're doing all the right things and have gotten the proper certifications when it comes to our products that have down.

The second question comes from our founder. And I just want to get to the crux of the question, which is the company has not had a functional CEO for 11 months in the last five years and no CEO pipeline for eight years. And this is the board's #1 job. What actions has the board taken to fix this? Thank you. And that's from Chip Wilson. I don't think anybody around this table would disagree that one of the top priorities for the board, certainly in the top 3, is succession planning. It's funny that the question came up today, as we just finished spending the better part of the morning with the management team going through succession planning. Obviously, part of that is CEO conversation, which I'll get to in a second. But I think any good board doesn't entirely focus on the CEO, wants to make sure that every part of the organization that we are committed to succession planning, developing people, getting them ready for the next opportunity, stretching people with projects. I think any good board understands that. When it comes to the CEO, I don't think anybody here feels good that, recently, as our CEO resigned on February 5, that we were not in a position to appoint somebody internally right away. So I think the search is going well. We're going to find somebody that I think all shareholders, including our founder and our employees and our educators are going to feel very comfortable with and proud that they're the new leader of the company.

With that said, the board has taken the situation very seriously. And as we engage our new CEO, I've actually doubled down our efforts to make sure, going forward, God forbid. And as our new CEO comes in, for some reason, is not here for the extended period of time which we want our new leader to be here, we will be putting all the steps in place, including developing people who will be working for the new leader of our new CEO down the road, getting them ready to step into the new role. There's many tactics we can use to make sure we keep them engaged in the company. Keep them motivated and get them ready to run this amazing brand at some point in the future. So we take that responsibility very seriously, as all boards do. And we plan on making sure the steps are in place for the future.

With that said, we had 2 questions today, which we're always happy to take more but we only had 2. That concludes the actual Annual General Meeting of Shareholders of lululemon for 2018. And we look forward to speaking to everybody (sometime) -- well, (it won't be sometime,) we'll speak to you quarterly, for all our shareholders, as we put out our results. We'll have the official Annual General Meeting in June of 2019. Thank you, everybody.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2024, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.