

Integrated Corporate Relations (ICR) XCHANGE

Company Participants

- Camilo Lyon, Analyst
- John Currie, CFO
- Tara Poseley, CPO

Presentation

Camilo Lyon {BIO 16410113 <GO>}

All right. Good morning everyone. I am Camilo Lyon, senior equity analyst at Canaccord Genuity covering the footwear and apparel space.

It's my pleasure to introduce lululemon, the category leader in yoga-inspired athletic apparel. Joining us from the Company we have Chief Financial Officer John Currie; Chief Product Officer, Tara Poseley; VP of Communications Therese Hayes; and VP of Financial Planning Chris Tham.

With that I will pass it over to John, who will provide us with an overview of lulu's global growth strategies and opportunity set. Thanks.

John Currie {BIO 1494810 <GO>}

Thanks, Camilo. Well, I think as most of you know by now, we updated our guidance for Q4 and for fiscal 2013 before the market opened on Monday. Just to recap, because of weak trends we are seeing in January we reduced our guidance by \$22 million of revenue from the guidance that we gave in early December.

So with that it brings our revenue for Q4 down to a range of \$513 million to \$518 million. That reflects on a store-only basis a comp in the low to mid single-digit negatives; although if we combine it with e-commerce, which has continued to be positive, that translates to a low single-digit positive comp. That results in earnings per share for the quarter of \$0.71 to \$0.73 per share.

Incorporating that into our full-year numbers, at the high end of the range that is revenue of \$1.588 billion, a plus 3% comp when you are looking at stores only, and plus 8% when combined with e-commerce. And again at the high end of the range, earnings per share guidance is now at \$1.89.

So 2013, that is a year that we're quite happy to see going behind us. I thought I would spend the next 10 minutes maybe just rehashing everything that happened this past year that has resulted in the negative press. Then I thought better of that.

So I've reduced the review of 2013 to one slide that really sums up the way we are looking at 2013 : What doesn't kill you makes you stronger. I'm joking, but not really, because we are coming out of 2013 a much stronger company than we were a year ago.

When a company or an individual has challenges, there is a lot to learn, a lot of actions to take to come out stronger; and that is our focus looking forward. So that is the last I will talk about 2013, ever.

What are some of the areas that we are feeling great about as we look forward? The quality problems that we had earlier in the year were a real wake-up call. Since then and even prior to that we're on a path to implementing what will become best-in-class quality assurance at lululemon.

There's a lot of aspects of that, and we are well underway. And it is already starting to show benefits as we look into 2014.

Fundamental to that is very extensive testing of all fabrics for a complete set of specs right at the raw materials stage at the mill. So that is a big initiative.

It is not just for Luon, but every other fabric that we use in our product. It means hiring people in markets in Sri Lanka, in Taipei, etc., to be in the factories all of the time, not just flying in once per week to do a check.

Then inside the office, the whole go-to-market calendar and the whole process under our new Senior Vice President of Product Operations, Jennifer Battersby, that takes the hand-off from design and takes the product all the way through to delivery to the stores, we are implementing a much more comprehensive -- I hate to use the word discipline, but there is some discipline to the go-to-market process that we are implementing that will actually provide guardrails for our design team. That will not handcuff them, but actually empower them.

And that is the road we are on. We still have some additional hires, some additional investments, but we are well underway. As I said we are already seeing the benefits in terms of our buy-ready percentage for Q1, and we will see continued improvement throughout 2014.

There are a number of wins that are kind of overshadowed, including our men's business, and even in Q4 comped in the mid-teens. The ivivva young girls' business again comping in the teens, and we are looking to accelerate store growth on that concept in 2014.

And operationally, you remember last year that we called out a couple of technology adds that would be easy wins that we actually implemented this year. On the very busiest shopping days we identified that having a mobile POS capability would

allow us to bust the lines, when there is a guy just waiting to buy a gift card or somebody with one or two items.

We implemented those in all of the stores this year, and it was tremendously successful on those peak holiday days during shopping season. I just wish there were more of those days; but that is in the future.

And finally we have in-store mobile e-commerce capability. So if the guest comes in and we don't have her size but she likes the style, we can on the spot place the order for her in the store, and it is delivered to her house within a couple of days. We rolled that out in 56 stores during the holiday season.

That was successful. There are some technology improvements, and we will have those rolled out to all of our stores by the second half of 2014.

And the other learning -- you always hear the phrase that any PR is good PR. Well, we learned that that is not always the case.

So I just want you to hear that we are taking it seriously. Like, we get it.

We have a great brand; and we could be complacent and expect the guest and the traffic to come back. But we are not going to be complacent. We have a tremendous brand, and it is incumbent on us to do everything we can to turn the conversation around to be more positive again.

So right out of the gate we have done some fairly extensive consumer research, just to confirm our feelings on what the impact of the negative PR during 2013 has been and what are the things that we should be doing to address it. Within that survey, I just wanted to call out this one slide.

On the positive, that what we have going for us is off-the-charts brand loyalty. That's something that we have earned over the years with our guest, and we have to really appreciate that and earn the guest's trust and respect going forward. So that is the focus.

Now, what are the initiatives that you will see? I can't tell you yet, because our brand team is huddled right now working pretty hard on coming up with ideas for everything that we can do to get the conversation within our guests back to the fact that lululemon has the best quality.

But right out of the gate we have done some things. I touched on it on the earnings call in early December.

We came out with what we'd call a no-humbag program, where we allocated a few thousand dollars of budget to each store and we just said go out and make your guest and your community happy. Random acts of kindness; just have fun with it.

So I have a brief video that capture some of the examples, and I hope the video works. (Begin Video Clip) I really want to call out to our store managers and their teams for really executing just a wonderful program; and look forward to a lot more of that from us in the near future.

So finally, the other big win of the year. As you know there has been some turnover at the top and we had several vacancies on the executive team earlier in the year. We are at the point now where that's getting behind us.

Laurent, our new CEO, is already emailing me frequently; but he starts officially on Monday. On the product side I mentioned Jennifer Battersby, who is our Senior Vice President of Product Operations.

Steve Berube came on as our Senior Vice President of Distribution and Logistics, and he is really upgrading our skill set in that area. And last but not least, our wonderful new Chief Product Officer, Tara Poseley, who I'd like to turn it over to now, so you can get to know her a little. Tara?

Tara Poseley {BIO 6683436 <GO>}

I have been prefacing a lot of the meetings that I have only been here eight weeks. I joined the Company back in mid-November, and I have spent my first eight weeks onboarding in the stores and in SSC, in our corporate office.

The two things that really brought me here to lululemon, why I was attracted to coming here is the amazing culture -- which I think that's a great example of, the no humbug. That's the kind of thing people do at lululemon that just makes me so excited about being here.

And also the product. My real true love of the product.

So starting with culture, I worked in stores from San Francisco, Vancouver, all the way to New York. I did -- I was in Mall of America right before the day before Christmas. And I can tell you, I heard what an amazing field organization that lululemon has.

But I was blown away by the intelligence, the intellectual curiosity, the entrepreneurship, and also just the intense passion for both the guest and the brand. I have been in vertical retailing over 25 years, and I can absolutely say hands down this is one of the best field organizations I have ever come in contact with.

So I know a lot of you know that. We talk about that a lot at lululemon, about our educators in our field. But I don't think we talk a lot about the type of talent we have in the SSC.

And I've also been really excited about the talent in design and merchandising that I have met since being in our corporate office. I spent 15 years at The Gap, most of that time, 13 of those years, working under Mickey Drexler. And I have that same

feeling about the culture in the corporate office of lululemon as I did those 15 years at The Gap. The passion, the energy, the creativity of the corporate team is really exciting.

And if you ask me what am I going to be focused on in the near future, one of the things -- I think the team is amazing -- and really my focus is going to be attracting additional great design talent to come on board to our team. And that is going to be a great focus of mine, and I am very excited about that.

The second thing, the product, is the other reason why I came to lululemon. I've been a lifetime athlete. I grew up ski racing as a young girl, and I run, I do yoga. I've been athletic my entire life.

And one of the things women in my generation, most of us, we grew up having to wear ill-fitting clothing that was designed for men. Or, when they started realizing with Title IX and all of those types of things that actually there's female athletes out there, you had a lot of guys designing for women. Still not great-fitting product.

So when I found lululemon, I think it is like six or seven years ago, I was blown away. Because finally I could find apparel that fit an athletic woman, that technically was great. But also being a product person who loves good design, be able to find product that had both technical and beauty in the product, in one, I think that is when I got excited.

I think if you ask me: when is lululemon at its best? It's when we have that perfect marriage between technical and beauty.

Again, what is my near-term focus is making sure every single piece of our product that hits the floor -- my first assortments will be in Q4 -- that we have beauty and technical. Because I think that was the emotional unlock, unleash of that fever, of that brand dedication that you saw, those slides that John showed earlier. That was the unlock, I think, with the American women and Canadian women, and we need to protect that going forward.

Because we are a product-driven company, a design-driven company, it wouldn't feel right giving a brief talk without at least having product. So I have three educators here from our store here in Orlando, and they are going to all three come on up stage.

What I am going to do is start to show -- I wanted just to at least call out where I see beauty and technical come together. I will probably -- I know it is hard to see, because we are up here. Do you want to go here and then the other two there?

I will just go through each one, and then we can just walk down the aisle. I know it's a little bit tough; but again, I am a product person. I can't get up here without product.

So Margaret, this is all product from the spring assortment. I just went and pulled product and actually did this process with the design team, because I thought it was a first, initial great conversation for me to start having that conversation with design, and making sure we are aligned on what does technical and beauty look like when it comes together.

So this is our printed Wunder Unders; I will start there. So print, print, print. Print is trend in bottoms.

I think I was excited because, when all three girls came to the room to get -- to try the clothes on, they started like jumping up and down with excitement. So that is always a good sign, because this is product that is coming in, in Q1.

So our printed Wunder Unders; this is in our great 28-gauge Luon fabric. Again, technical fabric but a trend-right print that is amazing and really appeals to our core young 30-year-old.

Then this is our technical run jacket. Again, it is just all -- all the drawstring is in the right place to show a woman's figure. Beautiful ruffled details, yet it technically works. Like, I could run in this jacket; it has all the right movement, all the right pockets.

Then underneath that is our singlet. This is our barely-there Luon. This, you could do a hot yoga class in this. The wicking properties are unbelievable.

But again, it has the racer back. You want to turn around? It's a beautiful top, but it also allows for full movement.

Then if you don't mind taking the singlet off, we will show our Breathe Easy Bra. So most people would just do a sport bra, but we do stretch grosgrain on the back. Again, this is all for fit and comfort, but it's so beautiful.

So I think you can just walk down to the back. Thank you, Margaret; you can put your shirt on if you want. Okay.

So Stacey has our bright bomber jacket. Again, you can't see this, but this is in camo. Camo is trend-right right now, and this is coming in in the spring. Short sleeve; it is perfect for layering up, layering down, when it is so cold out.

You can see again beautiful grosgrain. Everything is just gathered in all the right places for a female figure.

650-fill down, top-quality goose down. We only use the best. Do you want to take that off so you can show?

Then reflective. So how do we -- safety, that is a big thing we talk about. Only lululemon would do it in this way. I mean we took a bold movement -- a bold move over reflective.

And you can see back here the perforation. Again a trend going on in fabric or in fashion is perforation. You will see it a lot in footwear and other pieces of high-end fashion.

We used it beautifully in this jacket, and it breathes. It serves a purpose. It is not just there because; it serves a purpose.

Then you can see this is the Luxtreme fabric that I'm personally passionate about. This is something that I felt was -- being a long-term guest at lululemon I felt we were missing this type of compression fabric, and we have it now.

We have gotten amazing guest response to this, this past year. But again, all the pockets in the perfect place for a woman who is running, who is going out for a run.

Reflective. We didn't just slap reflective on the product. It is done in an artistic and beautiful way.

Then you have got again our great Luxtreme fabric in the bra.

And color. I think we should always be leaders in color. I think we have so much opportunity there, and our guest we know loves us for color.

Again, those are some of the things I am going to be concentrating on quite a bit with the design team. So you can just walk, and you can put your jacket back on, too. All right.

Then we have Emily. Then again, I talked about this is a 650-fill down jacket. Again, if you look at all of the details it is a beautiful jacket; the hood comes off. Very purposeful.

We have used grosgrain all the way around the bottom as a beautiful design detail. Rose gold; again, something very trend-right. You would not see that in an Under Armour or a Nike or anybody else.

This is -- and we would take that kind of risk and use a zipper like that. We used it in Fourth Quarter; got such great guest response, here it is in Q1.

Let's see; show your top underneath. This is four-way stretch.

So you can see on another important detail going on in fashion is laser cut. But again we are not just using it because. If you turn around, it's in all your high sweat areas,

right?

So you have just the beauty of the laser cut, the ruffling, four-way stretch fabric. I mean it is a perfect -- I have run in this top. It's such a perfect run top.

And again you have got the Luxtreme bottoms on. But you can't see it very well, but we have put beautiful ruffle, shiny detail. She looks amazing in this product.

So that is just a little sampling of what we have coming for spring. Hopefully you get a sense of where I am going to be taking the assortments and where I am going to be challenging the design teams.

And I thank you for your time today, and I am very much looking forward to building an incredible global brand at lululemon. So thank you very much.

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