

William Blair Annual Growth Stock Conference

Company Participants

- Stuart Haselden, CFO

Other Participants

- Sharon Zackfia, Analyst, William Blair & Company
- Unidentified Participant, Analyst, Unknown

Presentation

Sharon Zackfia {BIO 4804954 <GO>}

Okay. So we will go ahead and get started. I'm Sharon Zackfia.

Very happy to have with us today from lululemon Stuart Haselden, CFO. Founded in 1998 lululemon has expanded its store base at a compound annual growth rate of 19% over the past five years to more than 300 stores in the US, Canada, Australia and New Zealand, the UK and Singapore. We expect store growth will stay at a mid; to high teens pace through 2018 with plateauing unit growth in the US offset by an acceleration in growth in Europe and Asia with management targeting 20 locations in both Europe and Asia by 2017 versus what I think is three today.

Before turning the podium over to Stuart I need to tell you there's a complete list of research disclosures and potential conflicts of interest at williamblair.com. And that is the last time I'm saying this at the conference and I'm very happy.

Stuart Haselden {BIO 17615686 <GO>}

Okay. Great. Thanks Sharon. It's great to be here.

I've got a relatively short presentation. And maybe we'll save sometime at the end for some Q&A.

You probably know the story pretty well already but I'll restate some of the key tenets of the business strategy and the business model. This page I think just it hits on the headlines of really how we compete and how the business model, the fundamentals of the business model are focused. It's certainly a major renovation focus in terms of the product in particular and continuing to move forward with the product from a technical design standpoint and a functionality in solving problems for athletes.

The guest and our ongoing obsession with the guest is certainly central to how we think about the business model. Quality and design, we believe our products are unparalleled in terms of the design and the quality and the fit and the make and the raw materials that go into it.

And the vertical business model, we control all points of distribution so there is not ever any conflict with any other participant in how our products are presented to our guests. So these are really the key elements of the strategy.

This slide presents the elements of what we call the brand operating model that we've talked about on the earnings call. We've got some quotes here from Laurent around each of these three pillars. The product certainly what we've talked about with reigniting the product engine, getting past some of the issues back going back to 2013.

And the focus is incredible in terms of just ensuring that the product from just a usability and the end-use and the rationale and the reasons we make each of the products to what goes into them and the vendors in the factories and the mills that we use. Then more recently the investments that we've been making over the last 12 months or so on a supply chain itself to enable us to get those products to market to our stores to fulfill our website demand in a way that is more streamlined and efficient.

Guest experience, certainly a big focus as I just mentioned. The educators we view as the most important employees in the Company and really where we engage with our guests. And that's really been from what I've. And I'm still pretty new to the Company. So but what I've come to recognize in the short time I've been with the Company the educators and just that in-store culture is really where it all began and where the heartbeat of the Company continues to beat the loudest.

And that understanding of the guest stems from our investments in our educators and the caliber of people that we have running our stores and working our stores I'm never -- it never ceases to amaze me. I spent some time yesterday afternoon with our Chicago team and just the quality of the folks that are on the floor, I believe in the 15 years in retail that I've had is really I haven't seen a stronger team. So that's certainly a big part of the model and has been from the beginning.

Brand and community, it's an interesting model and a very unconventional. The way in which we build showrooms, seed demand, identify who are the folks that matter in terms of getting the product connections in those communities and then how that is sustained once the stores are opened is a really unique model and again part of I think the secret sauce of lululemon. And you're not going to see the big flashy expensive media campaigns because this element of the business model is more true and more authentic to the brand and how it's established.

So just a few slides on drilling down on each of those elements of the business model. So the product I talked about how this comes to life specifically in the

investments that we're making now, upstream at our headquarters and with our design teams we've invested heavily in what we call the white space program which is a physical location at our headquarters in Vancouver where we test products, put them through different technical, almost experiments with a group of scientists really that are engineering the different feels, the different fits and the different functionality. So that's certainly a central part to how we think about those products.

You can't standstill. We have to move forward and continue to innovate. So investing in that capability in that white space is pretty critical.

Also we are now building what we call regional design labs. And we have the first one now in Vancouver, in the process now of opening the second one in New York pretty soon.

And so those will be how we will connect with so that we're not just in our headquarters talking to ourselves, we're in the communities. And there will probably be a handful of these over the course of the next couple of years where we'll be able to have a very close connection with our ambassadors.

So can you guys hear me? So those regional design labs will be a way we can again not just talk to ourselves in Vancouver but be connected with our ambassadors and our guests in key markets to continue to collect information to inform that product innovation process.

I love this slide. It's the slide on guest experience and there's no people in the picture. But it's a beautiful store.

This is actually this is our Robson Street store. You may have heard us mention this I think on the Q4 call, we relocated and expanded the store in that we increased the size of the store by 50% and the sales went up 60%.

We doubled the size of the men's portion of the store and the men's volume doubled. And so there was no dilution in the productivity of the box after we increased it 50%. So we did three of these type stores last year Robson Street, Santa Monica and Lincoln Road in Miami all had similar results.

So we're doing 10 more of these this year, 3 in Canada and 7 in the US and we're interested to see how these stores perform. The men's business we believe and I'm going off of the guest theme here per minute, the men's business we believe is one of the more exciting parts of the growth story.

And certainly when we built a lot of the stores you go back 10 years the men's business then was not what it is today or what it will be. And so just thinking about what's the right real estate strategy to support that part of the business model is pretty interesting and exciting.

But again coming back to guest experience you get a feel for with this picture just how the stores are designed. We do put a lot of thought and effort into the flow, how we create what the educators call the kitchen party. They want a small store with a lot of energy that creates these spontaneous interactions that you might not get with a bigger store.

This is a shot of the holiday party in Vancouver outside of the headquarters. It's not that. You guys thought I was serious.

This is a pretty cool photograph of Orchard Road in Singapore. In front of the opening of the first store there we did a yoga event. And I don't know how many thousands of people came out to that but it was I don't know if you guys have been to Singapore but Orchard Road is the main retail thoroughfare.

There is literally mall after mall on either side of the street, super high-end and to shut it down it would be like shutting down Fifth Avenue in New York. And this just kind of gives you a feel for the level of interest in the brand overseas.

I went down to Australia with Laurent a couple of months ago. And we took a look at a market there which is really strong and growing and improving from a productivity standpoint as we have bought back the business down there.

But I stopped in Singapore on the way back and I spent a day with our regional manager there. And it was so exciting to see the store that we have in ION that is not in a fantastic location but is just killing it.

And the second store that we opened recently in Takashimaya, another great center. It's just the, it's palpable, the interest in the brand. And in talking to Delaney Schweitzer before she left she described it as she would get the goosebumps in Asia, in Singapore, in Shanghai similar to when the brand was just starting in North America, just the excitement and the energy.

So I haven't been to Europe yet. I'm sure it's a similar dynamic but I can tell you Asia is pretty exciting.

Then just growth drivers. So we've talked about these on the call. I mentioned a few of them earlier.

But as you think about what are -- how will we grow the business, what are the levers of growth, there is a number of them and these certainly overlap in many ways. So the geographies, we still have a fair amount of runway in North America that we're deep into the work there. And certainly with international I just mentioned Asia, we've got store openings in Germany planned for this year.

We're just getting into the early stages of that and it's pretty exciting. The London stores are doing fantastic. Every store we've opened so far has exceeded our

expectations our performance.

And so it's really just how do we grow the brand overseas in a way that preserves the model, the integrity that presents the brand in a way that will both lead to long-term success and ultimately the highest margins. So the thing about you look at the history of North American retailers who have gone overseas and it's a pretty checkered past in terms of who's done it well.

What I love about the Lulu model and the approach to international expansion is the showroom. I really feel like that is such a unique element of the business model that derisks our investments and increases our odds of success. It helps us understand those markets, build awareness for the brand in a very community-based grassroots manner and it helps us get a read on those markets.

And if we don't hit a certain run rate in those showrooms we won't open the store. So where we have made mistakes it is where we've shortcutted that process. And so we're looking -- we will have operated showrooms for 12 to 18 months in every market where we'll be opening stores.

Demographics, this is a bad word for our men's business, our women's business and our kids business. Tremendous growth particularly in men's as we begin to really build out that assortment and bring to market interesting new products that we just haven't had in the women's business, continuing to reinvent that business. I think we've talked about the pant wall that will get introduced in Q3, really exciting.

We had the design team in our March Board meeting present to the Board the product line there. And it was really exciting to get a preview and I think our customers will be really excited and it will be the next generation of the fabrics and the fits and just taking that product to the next level.

I mentioned the men's business and our kids business also, it is a nice extension of the business model if you will. Probably not the overall growth potential as we would see in men's but nonetheless a nice avenue of growth for us. It's also a way for us to begin to catch or engage with the future lululemon shoppers early and build that customer pipeline or connect with those guest earlier.

Category extension. So we'll continue to think about where the brand fits from a category standpoint certainly beginning with yoga, run has been a great extension for us there, getting into the run focus to products. Tennis has been something that's got a fair amount of traction.

We recently introduced some of our cycling products in the men's side that have gotten great response, great reaction. And again it's really about solving problems for athletes and that will drive that thinking around which categories make sense for us to compete in.

Then channels, stores, omnichannel, meaningful investments for us in driving that omnichannel and e-commerce strategy. I think we mentioned we have a pretty major website redesign underway for this year that will introduce enhancements to our website from a look and feel and how it shops to functional characteristics in our checkout process which should improve our conversion.

And in the stores as we've talked about that's really how we continue to extend and rollout the business in North America where we have runway and international. Then continuing to think about the real estate strategy and some of the comments made earlier around just the Robson Street model and what we've learned from that and where it makes sense where we could have opportunities for expanded formats.

We've got a men's only store in Soho that's doing well and trying to think about and maybe look at other places where we could test that model also to see do we like is it better to have that men's format separated or is it better to have it combined under one larger store with our women's business. So yes, that's really those are the key drivers I would point to.

Then just a couple of slides on the financial results. You guys saw all of this earlier in the week for our Q1 results. We're encouraged to see the comp outcome fueled largely by our acceleration in our e-commerce business.

You see here the e-comm penetration reaching almost 20%. Don't see anything structural that would prevent us from driving that number even higher. So yes.

Then the guidance. So I'm not going to belabor what I would expect you guys have already seen in terms of the outlook for the Second Quarter in the full-year. We feel like we're on track.

We're seeing good momentum from a traffic and conversion standpoint. I think we had mentioned on the call that we've seen in the first five weeks of the quarter a good positive comp trend to include our Canadian stores. So we're seeing healthy demand that we're now that we're getting past the worst of the port issues and getting product into our stores now we're seeing the customer respond which is been really exciting.

So it's good. I feel like we're on track, good momentum. And that's it.

Sharon Zackfia {BIO 4804954 <GO>}

We have plenty of time for Q&A.

Questions And Answers

Q - Unidentified Participant

I have a question on sourcing of product. Are you benefiting from the stronger dollar?

A - Stuart Haselden {BIO 17615686 <GO>}

One second. Where's Jody?

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