



MEC

2017-18 ANNUAL REPORT

INVESTING FOR THE CONTINUED
SUCCESS OF YOUR CO-OP

MEC AT A GLANCE

ABOUT MEC

Established in 1971, MEC is Canada's go-to place for outdoor gear, know-how and inspiration. Combining high-quality apparel and equipment with expert advice and firsthand experience, MEC supports a wide range of activities including hiking, climbing, cycling, running, camping, fitness, yoga, snowsports, watersports and travel. As a co-op, MEC is owned by its members, who join by purchasing a \$5 lifetime individual membership. With over 5 million members, MEC is Canada's largest consumer co-operative.

WHAT GUIDES US

The MEC Charter sets out our vision, values and core purpose. It's what guides us along the path to our future goals and business decisions. We also follow international co-operative principles.

OUR CORE PURPOSE

We inspire and enable everyone to lead active outdoor lifestyles. We do that by selling outdoor gear, clothing and services. We match our members with gear that suits their needs. But we offer more than products. We offer passion. We love to share our expertise, experience and enthusiasm. We're guided by our values: quality, integrity, co-operation, creativity, leadership, sustainability, stewardship, humanity and adventure.

OUR GOAL

We aspire to be the most viable, vibrant outdoor retail business in Canada. We want to bring about a future where Canadians of all ages, and especially our youth, play outdoors more often and in ever-increasing numbers; have access to a comprehensive, carefully nurtured network of parks, wilderness and outdoor recreation areas; and have a deep-rooted connection to nature. We strive to continuously adopt and execute leading practices in environmental, social and economic sustainability, and set an example that inspires other organizations and individuals to do the same. In short, we want to leave the world better than we found it.





ABOUT THIS REPORT

This 2017–18 Annual Report is an integrated account of our performance – our business operations, our financial performance, our social and environmental impacts – and outlines how we address those impacts through our operations and the products we sell.

This report is guided by our material issues – economic, societal and environmental issues that are most important to our main stakeholders and the health of the organization. It is further guided by integrated reporting principles from the International Integrated Reporting Council (IIRC), and applies the Global Reporting Initiative's (GRI's) reporting principles for defining report content and quality.

We mainly prepared this report for members and staff, as well as the business, sustainability and co-operative communities.

Find out more about [our sustainability programs](#).

Our financial year used to run from January to December, but in 2016 we changed it to a February-to-March cycle, to allow for better inventory management and financial planning. This particular report covers the period from February 27, 2017 to February 25, 2018.

(Due to the changes to the fiscal year, the 2016–17 report included two additional periods. As a result, year-to-year comparisons of KPIs are affected.)

HIGHLIGHTS OF 2017–18

\$455 MILLION IN SALES

OVER 13.3 MILLION PRODUCTS SOLD

5.1 MILLION MEMBERS

4.7 MILLION MEMBERS IN CANADA

3 STORES OPENED WITHIN 8 WEEKS

161 FESTIVALS, RACES, CENTURY RIDES & TRIATHLONS

22 STORES IN CANADA PLUS MEC.CA

2666 EMPLOYEES

76% OF STAFF WOULD RECOMMEND MEC AS A GREAT PLACE TO WORK

92 FAIR TRADE CERTIFIED™ PRODUCTS

12,000 PRODUCT REPAIRS

233 PEOPLE PARTICIPATED IN OUTDOOR NATION

1.8 MILLION POUNDS OF WASTE DIVERTED

\$4.65 MILLION IN COMMUNITY INVESTMENTS

\$1.38 BILLION¹ CREATED IN DIRECT SPIN-OFF ACTIVITY TO THE CANADIAN ECONOMY

¹ Carnegie Mellon University Green Design Institute. (2018) Economic Input-Output Life Cycle Assessment (EIO-LCA) Canada 2002 (105 sectors) Producer model [Internet]. Available from: <<http://www.eiolca.net/>> [Accessed 8 Jun, 2018]



MESSAGE FROM *the Chair*

We had another tremendously busy year at MEC. We continued to implement large capital investment projects, which will greatly benefit the Co-op and our members for years to come. We also opened three new stores, and welcomed our five millionth member.

To support this work, we implemented recommendations to strengthen Board oversight and relationships. The Board and Executive Team worked together more closely than ever: we've improved collaboration between Board committee chairs and their counterparts on the Executive Team. As a joint leadership team, we were able to leverage our Board members' extensive experience to ensure optimal execution of our key strategic initiatives. We also created a Board Technology Committee to advise and monitor the implementation of our important systems projects.

Through our Community Investment Program, MEC contributed \$4.65 million to get more people active in the outdoors, and to provide access to and secure recreationally important areas near where our members live and play. Our store events continued to be successful – over 110,000 people participated in an MEC activity event.

Moving forward, we'll continue doing what we do best: providing an outstanding member experience, and inspiring Canadians to get outside. As Board Chair, I continue to be excited, optimistic, and passionate about our strategy and purpose. Thanks for your ongoing support.

Sincerely,

Ellen Pেকেles
Board Chair



MESSAGE FROM *the CEO*

It was a significant year in MEC's history. Our new web platform (completed in 2016–17) laid the foundation for big improvements at mec.ca, with a year-over-year web sales increase of 20%. We have also undertaken the mammoth task of replacing our core systems to position us for the future. This includes the 26-year-old Enterprise Resource Planning system (the foundation of our operations), and our human resource management system. We successfully went live with the first phase of both of these systems, and are now working on the next phases.

We opened our Kitchener store, and relocated the downtown Edmonton and Quebec City stores, all in the space of eight weeks. I'm incredibly proud of our staff for rising to these challenges, and making it all happen.

We also continued to advance our sustainability efforts, particularly on the product front. 88% of our apparel, tent and sleeping bag fabrics are now bluesign® certified. With 92 Fair Trade Certified MEC-label products, we are the largest Fair Trade Certified apparel brand headquartered in Canada.

The Reputation Institute's Canada RepTrak 50 study ranks companies that are winning the hearts and minds of consumers: in 2017–18. In 2017, MEC placed third overall (behind Google and Rolex). We were also named Canada's most trusted brand for the second year in a row by the Gustavson School of Business at the University of Victoria.

The retail landscape continues to change rapidly, driven by technology, urbanization, demographics and the environment. We are operating without precedent or predictability. Ultimately, it's the member calling the shots, expecting greater speed and more personalization. It's up to us to give them what they want and I believe that meeting these ever-changing expectations will require organizations to continuously question and disrupt themselves to remain viable.

We are endeavouring to develop an MEC that is more resilient, agile and capable of meeting the challenges of the future. We know that, as tough and disruptive this seems at times, we will always be faced with evolving consumer preferences, culture shifts, new technology and tough competition, and that we cannot shy away from change. We have a unique 47-year-old Canadian brand, and we want it to live on for another 47. Thanks for your support along the way.

Sincerely,

David Labistour
CEO

GOVERNING MEC

OUR APPROACH

MEC is governed by a nine-member Board of Directors, which members elect. Three directors are elected each year to serve three-year terms. The Board works closely with the CEO and executive team to provide vision and strategy for MEC. Major decisions, such as capital expenditures (new stores, infrastructure and systems), are made by the Board as a whole. Work is structured through various committees, which include Finance and Audit, Governance, Technology, Human Resources and Compensation, and Nominations.

PERFORMANCE IN 2017-18

A few years back, we improved our election process to recruit and recommend Board candidates who fill identified skill gaps and demonstrate alignment with MEC's values. As a result, the Board now consists of members with even deeper governance and executive experience.

We continued to fine-tune our governance practices and director development. We've improved collaboration between Board committee chairs and their counterparts on the Executive Team, which should result in even more robust, strategic decision-making.

Our 2017 Board of Directors election saw our highest voter turn-out in 20 years, with 57,181 members voting, and strong representation across all age groups. 50% were first-time voters (an 8% increase from 2016).

WHAT'S NEXT

As we move into 2018-19, we'll emphasize agility and innovation, while being mindful of fiscal constraints. To make the elections more environmentally friendly, paper mail-outs will be reduced.



BUSINESS MODEL AND STRATEGY

MEC is one of more than 9,000 co-operatives in Canada, which together represent some 18 million members. Together, MEC members – over five million and counting – own the Co-op and benefit from its enterprise. In simple terms, we're here for our members at large, and our success depends on our relevance to them all.

Besides being a co-op, we're also a purpose-led organization: our mission is to inspire and enable everyone to lead active outdoor lifestyles. We strive to be leaders in environmental, social and economic sustainability, and inspire others to do the same.

Since we're a co-op, we function in a different way than regular retailers. We really do focus on our customers first as they are our members. While we know we must be professionally and financially viable, we are not driven by quarterly profits. We also consider the wider impacts of what we do. That means we don't ship a product without considering its carbon footprint, or design a piece of clothing without considering its sustainability attributes.

Remaining relevant and viable in an increasingly competitive world requires that we meet our members' expectations in our products, services and value, and this requires increasingly complex Board and Management stewardship of the Co-op's business on their behalf in a fair, responsible and effective manner.

How do we do it? Our strategy is to supply products, services and a community that support and enhance outdoor adventure, recreation and active, healthy lifestyles. We stay in close touch with our members and the communities we serve and invest in, making sure we provide them with the convenience to find, research and buy product in any channel or on any device that is most convenient to them.

Community engagement is a big part of our strategy: this includes providing our members with opportunities to learn, and events at which to recreate. We are Canada's largest supporter of expeditions; our grants, partnerships and outreach programming are aimed at getting the youth and diversity of our country outdoors and active in greater numbers. By implementing a holistic approach to our business, we align our members' best interests with those of the organization.

Underpinning all we do is the drive to be a trusted brand. This includes our attention to quality, our Rocksolid product and service guarantee, and the social and environmental consideration of our products and operations. We also strive to be an outstanding employer, engage with our membership, and have transparency in reporting. These are all important attributes of brand trust.

SUSTAINABILITY AT MEC

OUR APPROACH

MEC has a strong foundation in sustainability. Over the past decade, we have successfully embedded sustainability values and actions throughout our organization and supply chain. We have been addressing many of our more difficult and complex issues, such as responsible sourcing practices, and creating products with a lower environmental footprint. Among other things, this has earned us a reputation as a trusted brand and retailer, and a sustainability leader in the apparel and outdoor industries.

PERFORMANCE IN 2017-18

We last updated our sustainability strategy in 2012, but much has changed in our external and operating environment since.

In 2017-18, we renewed our strategy to ensure we address our most material issues, manage risks and capitalize on opportunities, set targets that drive meaningful impact, create internal alignment and monitor progress. Our sustainability strategy covers our operations and supply chain as both a brand and retailer, and defines our main focus areas and objectives for the next several years.

Linked and aligned with the priorities of our overall business strategy, our sustainability strategy consists of four pillars:

- **Product integrity** using better materials and processes, sourcing responsibly and treating our partners fairly, and promoting change in our industry
- **Green operations** to lighten our environmental footprint and provide a differentiated member experience
- **Member offering** that goes beyond just selling more stuff, such as our community investment program, and lower-impact offerings such as rentals, repairs and used gear
- **Collaboration, transparency, accountability and advocacy** to make sure MEC is a brand people trust

Our renewed strategy does not constitute a major change in direction, but enhances and builds on the strengths of existing programming, ensuring leadership and meaningful progress in the areas we and our stakeholders care most about. We are rolling out the new strategy, embedding it into departments, and have begun sustainability training for every store staff member.

WHAT'S NEXT

We will continue to communicate the strategy internally, incorporating targets into department plans and performance goals, and establishing monitoring and reporting systems for the Key Performance Indicators (KPIs) we'll use to measure progress.

MATERIALITY ASSESSMENT

Prior to updating our sustainability strategy, the Sustainability Team conducted a materiality assessment to update the most relevant issues and megatrends that MEC faces alongside the outdoor and apparel industry, our main stakeholders, society and the planet. By clearly understanding our material issues, we can prioritize our strategy and reporting and mitigate our biggest social and environmental impacts.

From our materiality assessment, we found that stakeholder groups vary in their ranking of material issues (e.g., suppliers versus members), and that rankings can even vary within individual stakeholder groups. Therefore, instead of ranking each issue, as we've done in the past, we've listed them alphabetically to present each issue equally. This may remove some nuance, but it also simplifies the conversation around materiality, and reinforces the fact that all issues listed are – and ought to be – top priorities for MEC.

Some material issues are addressed elsewhere in our business, and are not directly addressed through sustainability programming. However, things such as business health and adoption of new technologies are considered to be constraints, considerations or inputs into the sustainability strategy.



MATERIAL ISSUES

ECONOMIC & GOVERNANCE

ENVIRONMENTAL

OPERATIONAL

PEOPLE & COMMUNITIES

● BUSINESS HEALTH

Create and maintain a vibrant business that remains healthy and profitable in an increasingly complex, competitive and fast-changing environment.

● CO-OP GOVERNANCE

Make good decisions that are in line with MEC's Purpose and Values.

● MEMBER ENGAGEMENT

Uphold member engagement and trust in their Co-op.

● ANIMAL WELFARE

Ensure the humane treatment of animals in MEC's supply chain.

● CHEMICAL IMPACTS

Ensure responsible chemical management by eliminating harmful chemical discharge and related impacts on people and the environment, primarily in product and materials.

● ENERGY AND GHGs

Reduce energy use and GHG emissions in our operations and supply chain, and ensure MEC's resilience against climate change impacts on our business.

● MATERIALS USE AND WASTE

Reduce materials use and waste in product design, manufacturing and operations; mitigate negative impacts of natural and synthetic material extraction, development and disposal.

● WATER STEWARDSHIP

Reduce water use and water-related impacts in our operations and supply chain, and take action to ensure shared water resources are managed sustainably and in the public's best interest.

● ADOPTION OF NEW TECHNOLOGIES

Monitor the impacts of new technologies on society and our business, and adopt systems that best serve our members.

● DATA ANALYTICS

Enhance productivity and make informed business decisions using data and analytics.

● MEMBER DELIVERY

Create an integrated shopping experience, delivering product and services to members where and when they want them.

● PRODUCT OFFERING

Offer members a thoughtful, user-oriented assortment of products, with outstanding quality and value.

● ACTIVE AND HEALTHY COMMUNITIES

Build a community of active outdoor enthusiasts by connecting people to nature, supporting their physical and mental well-being, building community, and encouraging them to preserve our planet for future generations.

● HEALTHY WORKPLACE

Uphold worker rights and ensure worker and staff well-being in MEC's operations and supply chain.

● ORGANIZATIONAL CAPACITY

Create an organizational culture that is high-performing, entrepreneurial, agile and collaborative.



YOUR CO-OP'S SCORECARD

MEC'S PERFORMANCE SUMMARY FOR 2017-18

For more detailed information on how we calculated the data in this report, please visit mec.ca/reporting

Goals achieved: ✓ Goals not achieved: ✗



ENVIRONMENTALLY PREFERRED

Products with PVC-free, or at least 50% recycled, organic cotton, or bluesign®-approved content.

2017-18: ✗
2018-19 goal: Increase



BLUESIGN®-APPROVED FABRICS

In MEC clothes and sleeping bags to lessen our impact on the environment.

2017-18: ✗
2018-19 goal: 100%



FAIR TRADE CERTIFIED™ MEC PRODUCTS

MEC paid into a special fund managed by the factory workers who made them.

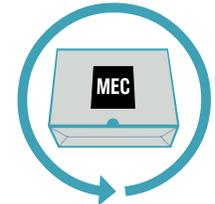
2017-18: ✓
2018-19 goal: Increase

0.91%

PRODUCTS RETURNED

Because they were defective (as a percentage of sales).

2017-18: ✓
2018-19 goal: <1% of sales



98.9%

IN-STOCK ITEMS

On the store floor and available for purchase.

2017-18: ✗
2018-19 goal: 99.5%



39%

ACTIVE MEMBERS

Of the members who made a purchase at MEC over the past 10 years, 39% of them made a purchase in 2017-2018.

2017-18: ✓
2018-19 goal: 38.6%



\$4.65M

TO COMMUNITY INITIATIVES

For organizations focused on conservation and outdoor recreation to make getting active outside easier.

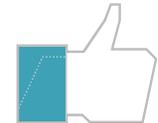
2017-18: ✓

91.6%

MEMBER SATISFACTION

Satisfied or very satisfied with service in stores and on the web.

2017-18: ✓
2018-19 goal: 90%



28%

FACTORIES MET OR EXCEEDED EXPECTATIONS

Based on our Code of Conduct standards for working conditions.

2017-18: ✗
2018-19 goal: Increase

1 FACTORY WITH UNACCEPTABLE VIOLATIONS

We're working with them to correct these issues, or MEC will seek a new supplier.

2017-18: ✗
2018-19 goal: Zero



94.3%

WASTE DIVERTED

Recycled, donated or composted, instead of going to the landfill.

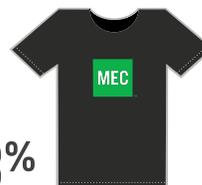
2017-18: ✓
2018-19 goal: 92%

73%

EMPLOYEE ENGAGEMENT

Our score in a survey that tells us how well MEC supports and engages employees.

2017-18: ✗
2018-19 goal: Increase



4367 TONNES

CARBON FOOTPRINT

From product transport, waste, energy use, and business travel.

2017-18: ✓
2018-19 goal: Reduce by 1.8%



27.7M (TOTAL)
24.08 (PER SQ FT)

LITRES OF WATER

Used in our buildings. Starting in 2018-19, we will report water use on a per sq ft basis only.

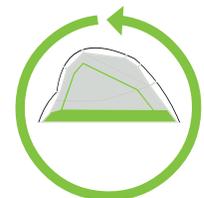
2017-18: ✓
2018-19 goal: Decrease

2.26

INVENTORY TURNS

Times we sold through and replenished our inventory.

2017-18: ✗
2018-19 goal: 2.59



\$455M

ANNUAL SALES

Thanks for supporting MEC!

2017-18: ✗
2018-19 goal: Increase



Note: Due to the changes to the fiscal year, the 2016-17 report included two additional periods. As a result, year-to-year comparisons of KPIs are affected.

THE MEMBER EXPERIENCE

OUR APPROACH

Our operations include the systems, infrastructure and processes we need to provide members with the right products and services, at the right time, in the right place and at the right price. It includes product transportation and logistics, as well as the development and operations of our website, stores and distribution centres.

Through our member service model, we've created a convenient, hassle-free shopping experience. We consistently upgrade and develop this offering, so members can browse, find, buy, learn, communicate and get help in any channel or on any device.

At the same time, we need to manage the environmental impact of our operations, including our carbon footprint, and both our water and waste management practices. We currently measure greenhouse gas emissions for product transport and air travel, as well as facilities energy consumption and waste. Product transport makes up roughly 80% of our measured footprint. We have goals in place to reduce our footprint in all areas except waste, which makes up a very small portion of our footprint.

We consistently try to balance today's need to have product delivered as soon as possible with concerns about the accompanying carbon footprint. Whenever possible, we use efficient transport carriers to minimize our carbon emissions, and continually explore new options to further reduce our footprint. To achieve our carbon reduction goal for facilities energy consumption, we have energy-efficient green buildings, engage in energy conservation measures and invest in renewable energy certificates for all MEC facilities. We also incorporated a carbon price into our business planning and risk management strategies.



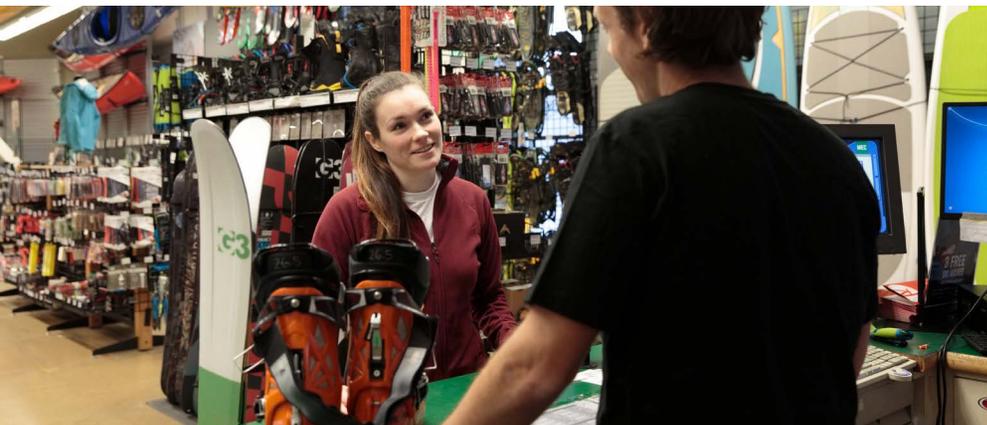
PERFORMANCE IN 2017-18

Stores: Within the span of eight weeks, we added three new stores – a new store in Kitchener and relocations in Edmonton and Quebec City. Downtown Edmonton is now a 41,000-square-foot flagship store in the city's Brewery District, with more services and product. At roughly 33,000 square feet, the new Quebec City store has almost doubled in size, and the Kitchener store is our first in Ontario's Tri-Cities region.

The new stores offer a more immersive, human-centered experience, and are outdoor activity hubs for their communities. They have broader, regionally specific assortments, with fast, efficient cash desks, improved ski and bike tech shops, larger footwear departments, next-generation energy efficiency and environmental design, and a merchandising style that helps members view and interact with products.

Website: In 2016–17 we transitioned to a new e-commerce platform for mec.ca. We've continued making improvements to the search and navigation functions, added an online feedback tool and simplified the checkout process. As a result, year-over-year web sales increased 20% and our checkout completion rate improved by 15%. Internal search upgrades improved search conversion by 12% and reduced the number of searches with zero results (failed search) from 21% to 1.3%.

Distribution Centres: With the addition of an Eastern Distribution Centre (EDC) in 2016–17, our eastern replenishment and delivery times dramatically improved. The majority of members' orders are now delivered within 72 hours of purchase. Stock replenishment at stores has also improved; for instance, Quebec City's DC-to-store delivery time for stock replenishment has gone from 10 days to 48–72 hours. Last fall, EDC employees decided to be represented by United Steelworkers Canada.



GHG Emissions: 2017–18 marked the end of our 5-year carbon reduction targets set in 2013. Our overall footprint was 4367tCO₂e. We set new targets to reduce our carbon footprint from facilities, transport, and air travel by 1.8% each year moving forward, in line with climate science.

In 2012, our baseline year, our emissions from product transport totaled 10.48gCO₂e/\$. Our target was to reduce emissions per sales dollar by 6% each year, down to 7.69gCO₂e/\$. In 2017–18, our transport carbon footprint was 7.56gCO₂e/\$, slightly exceeding our target resulting from the opening of a second distribution centre in 2016–17, use of more efficient carriers and a decrease in air freight. This was a difficult target to achieve, and is a result we are proud of. In absolute numbers, our product transport carbon footprint increased from 3160tCO₂e in 2012 to 3411tCO₂e in 2017–18, based on store and sales growth over the past several years.

For facilities, operational carbon neutrality was achieved at all our locations through the purchase of renewable energy certificates. We exceeded our goal for a 35% reduction in emissions from our 2012 baseline of 489tCO₂e. In 2017–18, two backup diesel generators ran for less than one hour, resulting in 2 tons of emissions.

For air travel, our goal was to achieve a 15% reduction by the end of 2017–18, compared to our 2012 baseline of 988tCO₂e. In 2017–18, air travel emissions were 866tCO₂e, achieving a 12% reduction over 2012 and narrowly missing our target.

Our carbon footprint from waste was 58tCO₂e, up from 50tCO₂e in 2016–17.

Water: We've had water efficiency initiatives in place at stores and head office for many years. Recently, we began collecting data on water to establish a baseline. However, water metering and billing varies widely among locations, making this a challenging initiative to tackle. So, in 2017–18 we made the decision to look at both water efficiency and water use moving forward.

Waste: We achieved an overall waste diversion rate of 93.7%, meaning that 93.7% of waste we produced was recycled, composted or donated instead of going to landfills. Over 4.5 tonnes of used gear were donated to community and not-for-profit groups in 2017–18.

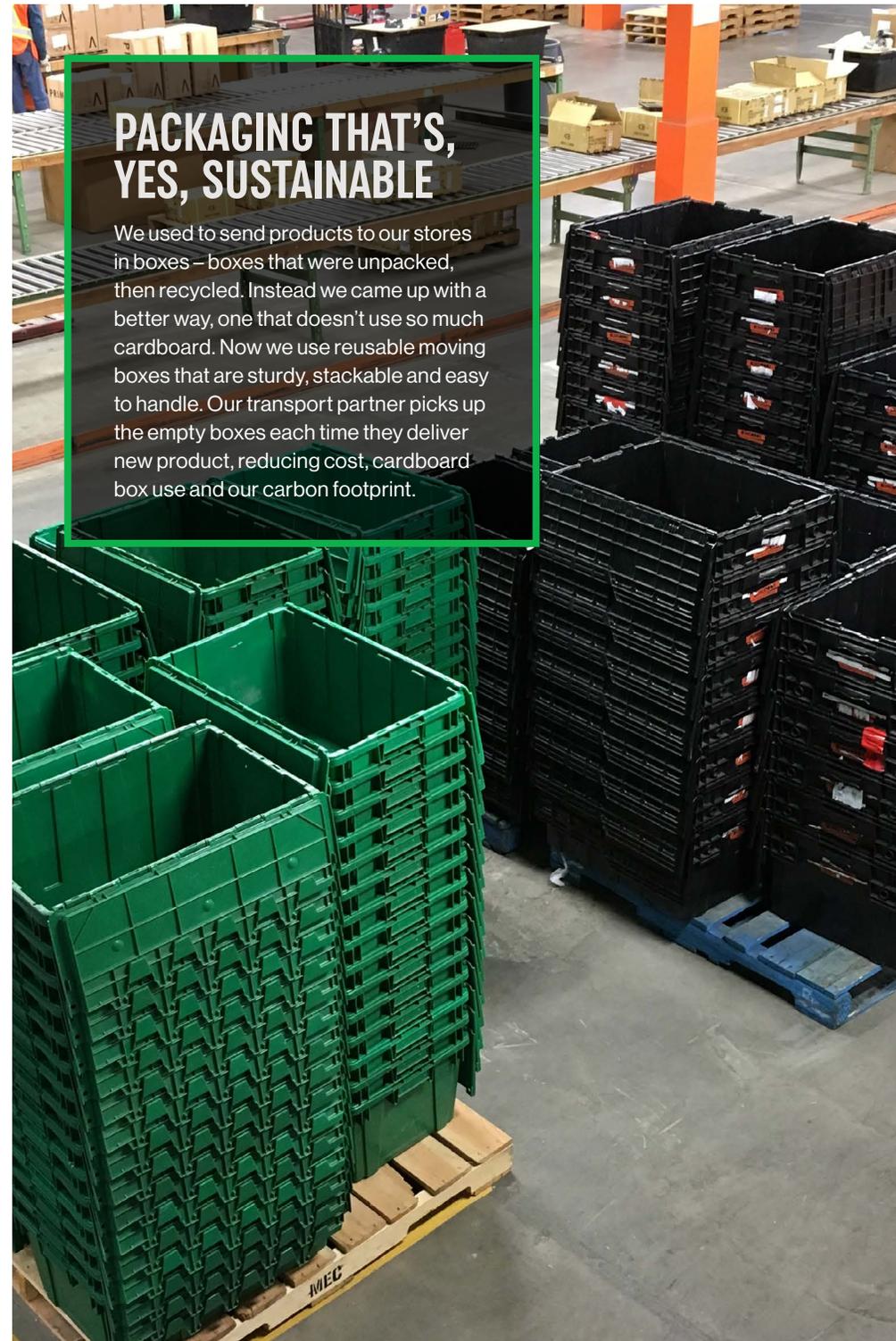
WE GOT LEED PLATINUM!

In November 2017, our head office in Vancouver was designated LEED Platinum Certified by the Canada Green Building Council. We're one of a handful of buildings in Vancouver to reach the highest level of LEED certification.

Take a [video tour](#) of our LEED Platinum head office.

PACKAGING THAT'S, YES, SUSTAINABLE

We used to send products to our stores in boxes – boxes that were unpacked, then recycled. Instead we came up with a better way, one that doesn't use so much cardboard. Now we use reusable moving boxes that are sturdy, stackable and easy to handle. Our transport partner picks up the empty boxes each time they deliver new product, reducing cost, cardboard box use and our carbon footprint.



WHAT'S NEXT

We're opening a South Calgary store in fall 2018 and relocating our Toronto store in spring 2019. In fall 2019, we will relocate our Vancouver store and open a new Calgary West store. We'll also continue our focus on providing members with a more consistent and quality experience with every store interaction they have with our staff.

Over the next year, we'll enhance and broaden the ways products reach members: improving in-store pickup to make it easier to see inventory levels, accelerating order pickup readiness from days to hours, and adding delivery options, such as ship to post office. Our mobile site is a powerful tool for members to complement their shopping experience, and we are always improving both its ease of use and functionality.

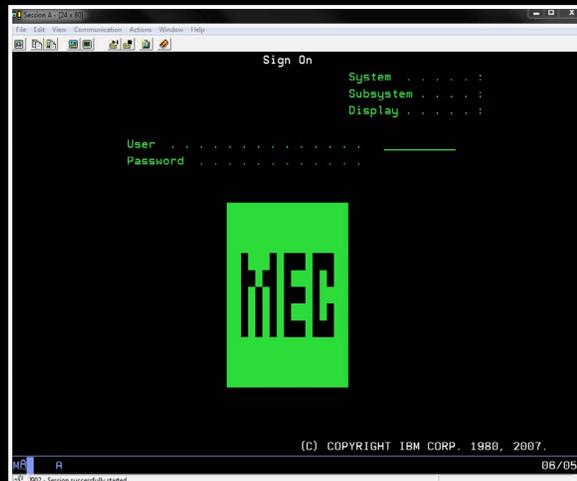
We will create a benchmark for water efficiency, and identify ways to reduce water use. In addition, we will adjust the KPI to water use/square foot, rather than absolute water use. Finally, we will explore opportunities to reduce emissions from product transport, and follow up on our waste audit results to reduce waste and increase our diversion rate.

OUR SYSTEMS

OUR APPROACH

To help us best serve members, we need to have a lot of things in place: great product, great staff and great services. To make all these things work together seamlessly, we also need great software and technology systems and processes.

In addition to a new web platform (see page 10), we're replacing our core systems and simplifying processes to position MEC for the future. This multi-year initiative includes replacement of our 26-year-old Enterprise Resource Planning (ERP) system, which manages supply chain and cross-functional operations, and our Human Resources (HR) system. Both systems are antiquated and no longer support our business needs.



[screenshot from MEC's current ERP system]

As the building block for all our systems, our new ERP system will extend our ability to provide a seamless customer experience. It will help eliminate time-consuming administrative work and help tailor and personalize what we offer to members, creating more efficient inventory and shipping to ensure the right product is in the right place at the right time.

Our new HR system will streamline processes, eliminate paperwork and help us recruit, reward, manage and develop our people more efficiently and effectively. It's a large-scale undertaking that will allow for a more modern workplace to meet the needs of our growing business.

PERFORMANCE IN 2017-18

We implemented phase 1 of our HR management system. The new system includes online pay statements and self-serve tools for staff and managers. We also launched the first phase of the ERP, and began using it for recording financial transactions, preparing monthly financial reports and non-inventory purchasing.

We also implemented a new cloud-based contact-centre management system to better respond to and track member inquiries at our Service Centre via phone, email and chat.

WHAT'S NEXT

In 2018-19, we'll roll out the next phases of our HR and ERP systems, implementing additional functionality to improve our business practices, and using data and analytical tools to make better decisions. We will also launch a point of sale (POS) replacement project which will improve the way members interact and transact with us in-store. Finally, we will look at our supply chain, and explore ways of using technology to get the right products to members quicker and more efficiently.

PRODUCTS

OUR APPROACH

We sell MEC-label products, as well as clothing and gear from leading outdoor brands, to support a wide range of activities, including hiking, climbing, fitness, yoga, snowsports, watersports, camping and travel.

We ensure we have the best selection of quality, functional and thoughtfully designed products, with new and innovative offerings, and great value. Our members trust that the products we curate on their behalf represent the best outdoor gear out there. Our products are also backed by our well-known Rocksolid Guarantee.

Our products represent the single largest part of our social and environmental footprint. That's why we've developed a holistic approach to delivering product in a responsible manner, solidifying our sustainability efforts for product and supply under Product Integrity, encompassing Quality Engineering, Social Responsibility and Environmental Responsibility.

Our material approval process includes detailed specifications for the use of environmentally preferred materials and processes within our supply chain. As part of our commitment to product quality, all materials for MEC-label products are rigorously tested and must meet performance requirements before we use them. In addition to our in-house testing lab, MEC Ambassadors and staff test prototype products and new materials in real-life situations. A rigorous responsible sourcing program also ensures products are made in a socially responsible manner. ([See page 19](#)).

We're a founding member of the Sustainable Apparel Coalition (SAC), a growing coalition of apparel, footwear and textile industry members with combined annual revenues exceeding \$550 billion (US). We actively contribute to the development of the SAC's Higg Index, a self-assessment tool that uses a series of modules to measure the environmental and social performance of apparel, footwear and equipment.

We work closely with bluesign® to ensure suppliers are following best practices to minimize the impacts of textile chemistry and processing on the environment and human health. We continue to increase the number of products made with bluesign®-approved materials, and to encourage our suppliers and brands to do the same.

As part of our commitment to environmentally preferred materials and animal welfare, we only use organically grown cotton, responsibly sourced down and non-mulesed wool in MEC-label products.

Finally, we aim to increase awareness and share best practices with our partners and suppliers, including use of tools such as the [Higg Index](#) and the [bluesign® System](#), so we all use the same framework and tools when assessing and working to mitigate our impacts.





PERFORMANCE IN 2017-18

Updating our offering and our regional assortments to suit evolving demands is how we earn members' business. As much of our offering is season-specific, unseasonal weather patterns made for challenging sales conditions. However, an early and strong winter helped many of our outerwear categories excel.

In outdoor recreation, consumers have more product and retail choices than ever before. That's both positive and negative for MEC. In a large sense, members "voted with their dollars," and we are happy to see positive sales growth. We also see strong sales in our core sports – climbing, skiing and paddling – as well as newer product areas such as running, biking, downhill skiing and travel.

In April, we began selling GHOST pedal-assist electric bikes in select stores. GHOST e-bikes are equipped with Bosch rechargeable power packs and drivetrains that can be engaged – or not. For the bikes to move, they must be pedaled. Our goal is to create a strong foundation for this program and grow it as demand for pedal-assist e-bikes increases.

We want members to get the most out of their gear for years to come. In 2017-18, we conducted over 12,000 repairs, and also increased the number of knowledge-base articles that teach members how to care for and repair their gear. We want to know how we can do better, and began research on what we are repairing and why. The challenge for us is that we traditionally track repairs on paper, making it difficult to assemble reliable data.

MEC-label products: We've been focusing on delivering more value through the MEC brand, and members responded well to our offerings. In 2017-18, we continued to work hard to ensure our products remain relevant to members. We spent much of the past year listening closely to members, attending focus groups and working with our Ambassadors to understand more deeply how to build the right product for a given activity and create the most compelling product offering.

With the MEC label, we have the ability to design and deliver functional, quality products for the active outdoors, with attention to technical performance, detail, and style, at a price that is unexpectedly affordable for the member. We also want to ensure we have a balanced collection of products that serve everyone from entry-level users to professionals. Ultimately, we want the member to have the best possible experience outdoors, whatever their activity and capability. In spring 2019, we will be launching new products that reflect these goals.



MEC LABEL: BETTER PRODUCT, BETTER MADE

We have established some MEC brand fundamentals to ensure we design and deliver best-in-class product:

- We ask *why* the product needs to exist before we design it.
- We always have a *reason* to create rather than creating a reason to design.
- We are *obsessed* with technical performance, function and quality. It's all about the attention to detail and the constant consideration of the end-use.
- We *solve problems* so the members don't have to.
- We design with *versatility* in mind: multi-use and multi-functional products that meet and exceed the members' needs, with a thoughtful approach to construction, fit, styling and materials.
- Our raw materials continue to be *world-class* and we stand behind them.
- We lead and maintain a strong, *sustainable* presence in the industry, with a focus on protecting the environment and the people that make our products, applying the philosophy of "better product, better made" into everything that we do.
- Our vendor partners have been *hand-picked* for their craftsmanship, innovation and quality execution of our designs. They share our values and continue to be part of the MEC collective.
- We *believe* in products that work, whatever the weather or pursuit.
- Our members trust us and we want to maintain and protect that trust.

Product sustainability: As a commitment to showing leadership, we've set an ambitious target: by 2025, every product we sell will have at least one sustainability attribute.

Our work on the Higg Index progressed: we produced an internal road map to help improve our own performance, and encouraged companies we work with to do the same. We have also set a target for 100% of our Tier 1 and strategic Tier 2 suppliers and wholesale brand vendors to adopt the Higg Index by 2020, and for all vendors to adopt it by 2025.

Our key focus on bluesign®-approved textiles continued to improve our footprint as a manufacturing brand. In 2017–18, 88% of MEC apparel, sleeping bags and packs used bluesign-approved fabrics, a 1% increase from 2016–17. We missed our stretch target of 100% bluesign, but will continue to work towards it as our annual target remains to achieve 100% bluesign-approved materials. We also continue to encourage our suppliers to become bluesign certified.

Of the product styles we sold in 2017–18, 1340 were made with environmentally preferred materials (versus 1626 in 2016–17). This includes products that are PVC-free, contain only responsibly sourced down, or are made with more than 50% bluesign-approved materials, organically grown cotton, or recycled content. Since 2016–17, all down used in MEC-label products is certified to the Responsible Down Standard.

Finally, we began looking at the potential environmental impacts of microplastics and microfibres. Research into microfibre pollution has been ongoing for several years, but hard data has been scarce. We began a partnership with Ocean Wise (Vancouver Aquarium) to generate research to help us move forward on this important issue.

MAJOR RESEARCH ON MICRO POLLUTION

In 2017–18, MEC provided the Vancouver Aquarium with a \$52,000 grant to study microplastic and microfibre pollution – in particular, tiny fibres smaller than a grain of rice that are now found in oceans, lakes and rivers. The year-long study is believed to be the first in Canada to attempt to link microfibres found in aquatic environments to common materials used in clothing and other home textiles.

Microplastic and microfibre pollution is seen as a leading source of global marine pollution, and potentially damaging to marine species. Unfortunately, the sources of these fibres, how they're dispersed, and how they affect marine species are poorly understood.

We do know that virtually all clothing – synthetic or otherwise – sheds fibres through laundering, along with normal wear and tear. When cleaned in household washing machines, fibres are pumped into drain pipes along with grey water. In turn, millions of fibres are likely discharged through municipal wastewater treatment facilities into marine and fresh water. While some removal is thought to occur during wastewater treatment, a significant amount of microfibres often elude screening.

While existing research has shown that microfibres exist in Canadian marine and freshwater environments, we hope to understand more about this issue through our work with Ocean Wise to understand and enable better solutions.

WHAT'S NEXT

Over the next 12 months, we will continue to innovate with MEC products designed around technical performance, function, quality and sustainability, as part of our commitment to value. Our core activities will continue to remain a primary focus for us, and will factor prominently in how the MEC brand will move into the future.

Our priority for Spring 2019 is to evolve our Active and Lifestyle apparel collections, with a focus on running, training, hiking and travel. Subsequent seasons will see an evolved assortment of backcountry apparel and equipment, with a focus on snowsports and backcountry systems. We will also continue to innovate and design for camping and kids' apparel.

We will continue to tailor more products and brands to our regional markets, to suit specific members' needs. Education of staff will remain a top priority. We'll deliver exceptional tools to enable first-class product education for members. To advance our repair program, we will also roll out a better way of capturing repair data to inform decisions moving forward.

In 2017–18, we will expand our list of sustainability attributes to other categories beyond apparel, and continue having conversations with vendors around attributes and materials that we consider environmentally or socially preferable. We will also continue to build out a verification process for our supply chain to enable on-product labelling for responsible down and responsible wool, starting with responsible down labelling on MEC garments and sleeping bags in fall 2018, and following with responsible wool labelling on MEC garments later in 2019.

IT TAKES THIS MANY PEOPLE TO MAKE A BACKPACK

At MEC, we're proud of the people behind each product. Take our **Mountain Fountain 14 Hydration Pack** – from the time it's designed to the moment it's stocked on shelves across Canada, over 100 people work together to ensure a level of quality, care and craftsmanship our members have come to expect.



CREATING STRONG PARTNERSHIPS

- 1** Sambu Vina Sports Ltd | Ho Chi Minh City, Vietnam
1 partnership with Better Work Vietnam
- 2** SALES CONTACTS
1 MERCHANT
1 DIRECTOR OF SOURCING
- 2** ENVIRONMENTAL & SOCIAL RESPONSIBILITY MANAGERS
BUILD A 35-YEAR RELATIONSHIP

CONCEPT DESIGN

- 2** MEC HQ | Vancouver, BC
200 cups of coffee consumed
- 1** TECHNICAL DEVELOPER
1 COLOURIST
1 DESIGNER
1 MATERIAL DEVELOPER
DESIGN THE BACKPACK
- 1** MERCHANT
1 COSTING ENGINEER
1 PRODUCTION SPECIALIST
MAKE SURE THE FINISHED BACKPACK IS AWESOME

MATERIAL DEVELOPMENT

- 3** MEC HQ | Vancouver, BC
4 prototype rounds between Sambu and MEC
- 1** DESIGNER
1 RAW MATERIAL DEVELOPER
SELECT AND SOURCE MATERIALS

PROTOTYPING

- 4** Sambu Vina Sports Ltd | Ho Chi Minh City, Vietnam
2,400km thread used
75 bowls of pho eaten
- 1** PATTERN MAKER
3 CUTTERS
5 SEWERS
1 THREAD CUTTER
CREATE PROTOTYPE SAMPLES
- FABRIC AND TRIMS SOURCED FROM 7 COUNTRIES**
6 MATERIALS ARE USED, INCLUDING 4 **BLUESIGN®-APPROVED MATERIALS**
A bluesign®-approved material has been made in an environmentally responsible way

TESTING

- 5** MEC HQ | Vancouver, BC
Bruce Trail | Ontario
- 1** QUALITY ASSURANCE
1 TEST LAB ENGINEER
1 FIELD TEST COORDINATOR
MEC AMBASSADORS AND STAFF
- TEST THE BACKPACK IN THE REAL WORLD FOR 7 DAYS**
REVIEW BACKPACK

PRODUCTION & QUALITY CONTROL

- 6** Sambu Vina Sports Ltd | Ho Chi Minh City, Vietnam
24,000 backpacks are sent per month
- 80** SEWERS
3 CUTTERS
5 RAW MATERIAL DEVELOPERS
MANUFACTURE THE BACKPACK
- 1** PRODUCTION SPECIALIST
4 QUALITY SPECIALISTS
3 PACKING SPECIALISTS
3 DELIVERY SPECIALISTS
- APPROVE AND PACKAGE THE BACKPACK FOR DELIVERY TO CANADA**

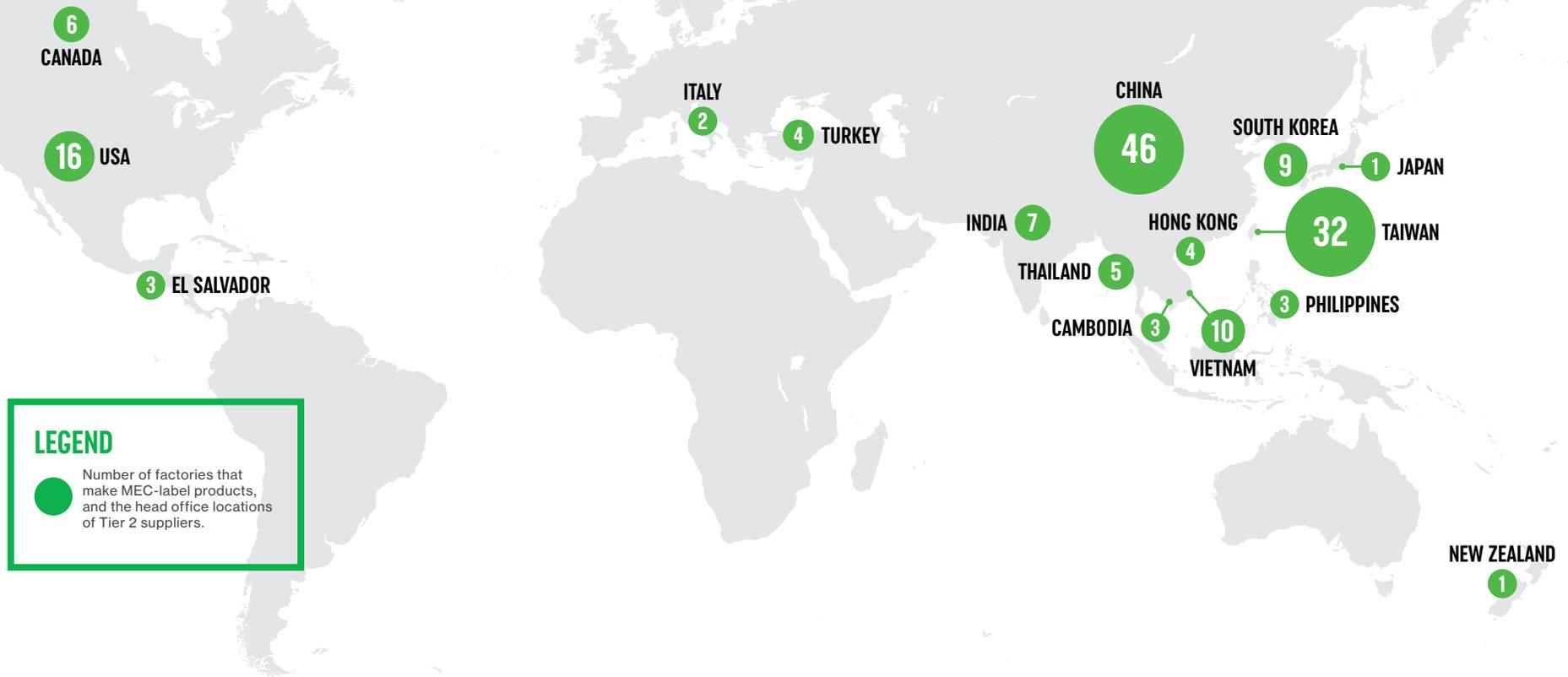
DISTRIBUTION

- 7** MEC HQ and Distribution Centres | Vancouver, BC, Surrey, BC and Brampton, ON
1 INVENTORY ANALYST
1 MERCHANT
ARRANGE STORE DELIVERIES
- 1** LOGISTICS SPECIALIST
12 DC STAFF
1 QUALITY CONTROL SPECIALIST
REVIEW BACKPACKS AND SEND TO STORES
- 8** MEC Retail Stores | Across Canada
3 TRUCK DRIVERS DELIVER BACKPACKS TO 22 MEC LOCATIONS ACROSS THE COUNTRY
- 2** MEC STAFFERS
UNLOAD BACKPACKS AND STOCK SHELVES AT EACH STORE

COMPLETION

- Mountains | Bragg Creek, AB
1 HAPPY MEC MEMBER
GOES HIKING WITH NEW **MOUNTAIN FOUNTAIN 14 HYDRATION PACK**

MEC GLOBAL SUPPLY CHAIN



LEGEND

Number of factories that make MEC-label products, and the head office locations of Tier 2 suppliers.

SUPPLY CHAIN:

- **Product manufacturers (Tier 1 factories):** factory locations producing MEC-label products (finished goods) sold at retail.
- **Product manufacturers (Tier 1 subcontracted factories):** factories used for embellishments (screen-printing, embroidery, laundry) and fabrication (metal fabrication, lamination). These factories were added in 2017–18.
- **Material manufacturers (Tier 2 suppliers):** We currently list head offices of the suppliers that provide our contracted factory partners with materials. There are often multiple manufacturing facilities and processes managed through a single supplier. As we continue on our journey for greater supply chain transparency, we will continue to disclose suppliers further up our supply chain.

As part of our new sustainability strategy, we've committed to establishing full transparency throughout our supply chain – all the way to where the raw material is grown or made – by 2025. Supply chains in apparel and outdoor gear are long and complex, so we have our work cut out for us, but we're confident we'll get there.

RESPONSIBLE SOURCING

OUR APPROACH

We work with dozens of factories around the world (none of which we own or operate), and our goal is to ensure our products are made in a way that respects the people who manufacture them. Our Social Compliance Program is dedicated to improving conditions such as legal working hours, safer environments and reasonable pay for work done, in factories that produce MEC-label products.

Our suppliers and wholesale brand partners are required to uphold the MEC Supplier Code of Conduct, which sets out minimum standards for workers' rights and environmental responsibility. We monitor compliance to our Code and require full access to the facilities where MEC-label products are made. We have high expectations and continue to consolidate and elevate our source base, seeking the best facilities for quality, social responsibility, delivery and other criteria.

The majority of our factories are audited on an 18-month cycle. While this timeframe is standard in our industry, it makes it difficult to conduct a year-to-year comparison of factory audit performance. Audits are a great monitoring tool, but can be cumbersome, and they only provide a snapshot rather than an ongoing look at factory operations. Where possible, we conduct joint audits with other brands that use the same factories, and collaborate to provide compliance training and help factories implement leading labour and health and safety practices.

To reduce duplication and free up time and resources, we are actively involved in developing an industry-wide assessment tool under the Social and Labor Convergence Project (SLCP). The Project aims to develop a simple, unified assessment framework that accelerates social progress and labour conditions in the apparel and footwear sector.

In our ongoing commitment to supply chain transparency, we disclose information on the supply chain partners for MEC-label products on our website, including names, addresses and number of workers. We also encourage other brands to do the same.

MEC is one of only 31 organizations in the world to achieve accreditation from the [Fair Labor Association \(FLA\)](#), a global organization dedicated to protecting workers' rights around the world.

Visit our website for more information on our [extensive responsible sourcing program](#).





PERFORMANCE IN 2017-18

Our goal is to have zero factories with outstanding unacceptable violations. When issues are discovered, our main goal is to work with each factory through remediation plans to reach understanding of the root cause and foster continuous improvement.

Earlier in the year, we had four factories with unacceptable violations. Throughout the year, we successfully resolved three of the violations. Two were remediated, and we continued production. One factory's violations were discovered during a pre-sourcing audit, so we chose not to source from them. At the end of 2017-18, we had one factory with outstanding unacceptable violations, mainly related to transparency with timecards. We continue to engage with them through remediation plans to solve the issue.

28% of factories met or exceeded our expectations, compared to 39% in 2016-17. Several new factories were brought on in 2017-18 and we often identify more areas of non-compliance during initial factory audits when a factory is unfamiliar with MEC's standards. This is particularly true of factories that manufacture hard goods and equipment, which require more chemical management and intensive manufacturing, areas where we typically see the majority of health and safety violations. We frequently encounter factories that are new to social compliance auditing, resulting in a need to work together to establish a corrective action plan.

69% of MEC-led audits were shared with other brands (compared to 75% in 2016-17). In lieu of conducting our own, we also accepted audits from Fair Trade, the FLA, other brands, and the Responsible Sport Initiative. This streamlined communications to factories, enabled us to share best practices, and made our audits and corrective and preventative action plans more robust.

We produced 92 Fair Trade certified styles (an increase from 45 in 2016-17), providing tangible benefits directly to the workers. MEC is now the largest Fair Trade apparel brand headquartered in Canada. We were able to add a supplier to the Fair Trade USA certification in Thailand, for a total of four certified factories. (The other three are in India.)

Social and Labour Convergence Project (SLCP): In 2017-18, the SLCP made great headway in developing a converged assessment tool and verification methodology. MEC, along with over 160 other signatories, continued to support the rationale and principles of this joint project, collaboratively building the tools and verification methodology. We also made a commitment to replace our proprietary tools.

Fair Labor Association (FLA): In October 2016, the FLA approved the reaccreditation of MEC's Social Compliance Program. As part of the reaccreditation, we received and implemented suggestions for strengthening our program, including the creation of a Grievance Guidance Document to help facilities build effective, fact-based internal grievance systems. We began developing Responsible Production Guidelines for sunglasses suppliers, and will do the same for bikes.

Supplier Disclosure: In September 2017, we added our Tier 1 subcontractor supply chain, and our material supply-chain partners to our [supplier disclosure list](#).

Myanmar: We have put a pause on sourcing wholesale brand products made in Myanmar, due to human rights violations of the Rohingya people.

Supplier Code of Conduct: In 2017-18, we introduced our Code to strategic material (Tier 2) suppliers.

Fashion Revolution: MEC joined Fashion Revolution in April to celebrate transparency and shine a light on the people who make our products. We showcased artisans from around the world, each holding a sign that read "I made your clothes" and featured a short story about each of them. It was well received by members and those who make our products.

To truly understand our entire supply chain, where there is risk that we need to mitigate, and where we can have positive impact, we set the following targets as part of our sustainability strategy:

- Workers throughout the MEC-label supply chain work in safe environments.
- By 2025, all Tier 1 and Tier 2 suppliers in the MEC-label supply chain are involved in an empowerment project.
- By 2025, eliminate recruiting fees for migrant workers from the MEC-label supply chain.
- By 2020, 100% of Tier 1 and strategic Tier 2 suppliers will have adopted the Higg Index.



INFLUENCING AN IMPORTANT CONVERSATION

As fiscal 2017–18 came to an end, thousands of members engaged with us about corporate ownership in our supply chain. The conversation turned on whether MEC should continue to sell products from brands that are owned by Vista Outdoor, a corporation that also has firearms holdings. The gun violence and loss of life occurring a few weeks previously in Parkland, Florida, catalyzed the issue.

After carefully weighing members' opinions and talking directly with the brands in question as well as the heads of their corporate owners,

MEC decided to suspend further orders from five brands owned by Vista. Since then, we have sought to further understand ownership structures within our wholesale brand supply chain by vetting it for firearms manufacturers.

The decision was not taken lightly. Quality products that support members being active outdoors are essential to our business. Hunting or sport shooting were not at issue. We know that many members enjoy these activities. At issue was the owner of the brands in question, and the need to establish reasonable limits on firearms ownership in the U.S., as exist in Canada. Our goal, in short, was to influence a wider conversation. We believe that bringing additional voices to a growing movement demanding increased safety – and focus on reducing violence – can only be a good thing.

WHAT'S NEXT

In 2018–19, we will continue to support the development of the SLCP assessment tool, with the goal of replacing MEC's tool in 2019. We will also continue to pilot self-assessment and verification under SLCP methodology. We'll adopt industry standards on migrant worker employment, and continue to benchmark our supply chain for areas of risk related to recruitment fees and force labour. We'll continue our journey on supplier disclosure and creating stronger internal tracking systems, focusing on our Tier 2 suppliers. We'll roll out grievance guidance to China, our largest sourcing country. Finally, we're revising our existing KPIs to better measure progress towards goals we set in 2017–18, and will develop action plans to achieve them.

ENGAGING WITH OUR MEMBERS AND COMMUNITIES

OUR APPROACH

Members are the lifeblood of our organization. Every day, with every interaction, we have the opportunity to bring someone in, to inspire them and share our enthusiasm for the outdoors.

Our stores are hubs for outdoor adventure and inspiration. Store events, programming, and community connections are key to connecting people with the outdoors. Our strong Community Investment programs invest in infrastructure, reach people facing barriers to outdoor activity, and make getting outside easier for everyone.

We don't do this alone. In addition to Community Grants, MEC has long-standing relationships with organizations addressing barriers to being active in the outdoors, and who help us in our efforts to broaden diversity and become more inclusive. Since 2011, we've partnered with Parks Canada to help facilitate their Learn-to Camp program. This program connects people who have little to no experience camping with activity workshops and knowledgeable MEC staff.

Partners include Parkbus, which provides accessible transportation to nature and activity for city dwellers; The Lady Alliance, a collective of outdoor women looking to break down barriers and get women outside; and Les Chèvres de Montagnes, the largest outdoor community in Quebec dedicated to women.

Outdoor Nation is our signature community investment program. It's aimed at inspiring and enabling young adults to be more active outdoors through community events, granting opportunities, a vibrant online community and Think Outside Summits.

Our MEC Ambassador program consists of passionate individuals who share MEC's vision, beliefs and values. They are aficionados of the outdoor activities we promote, and help connect with the community investments we're making. They are also an integral part of our product field testing team.

PERFORMANCE IN 2017-18

We celebrated our five millionth member. By the end of the fiscal year, we had over 5.1 million members. Our member satisfaction rate (based on in-store and online surveys) was 91.6%. Of the people who shopped with MEC in 2017-18, 48% said they would recommend us to their friends and family, a slight increase from the 47% in 2016-17.

Community Investment: We focused the efforts of our Community Investment program to align with MEC's social purpose: to inspire and enable everyone to lead active outdoor lifestyles. With clear criteria for solicited grants and new grant software, members are finding it easier to access our programs.

Our community contributions totaled \$4.65 million. This supported both outdoor recreation programs and expeditions, as well as organizations and initiatives that secure and provide access to recreationally important places.

Notable contributions include:

- The [Algonquin to Adirondacks Collaborative](#) creating a trail between Algonquin Park and the Adirondacks. [Ontario]
- Zero Ceiling's [Work 2 Live Project](#) provides employment, housing, support and adventure-based learning for young people at risk of homelessness. [British Columbia]
- [FQME: Ski de Montagne Parc Régional Massif du Sud, Secteur des Ravages](#) works with the Massif du Sud Regional Park to develop mountain backcountry ski areas. [Quebec]

Partnerships: A variety of partner organizations make up MEC's backcountry heart and keep us safe as we recreate. They include the Alpine Club of Canada, the Association of Canadian Mountain Guides, and organizations that engage with Canada's diverse communities, such as Spirit North, who introduce Indigenous youth to cross-country skiing and promote lifelong well-being. We also enhanced our partnership with Parkbus.

Responsible recreation is key to ensuring Canada's shared backyard is around for everyone's enjoyment. To conserve the places where members play, we invest in organizations that work to protect parkland and waterways of recreational value. In 2017-18, we invested in groups like Canadian Parks and Wilderness Society whose goal is to protect 17% of Canada's land and fresh water by 2020, and Our Living Waters who strives to advance freshwater health across the country.

Events: Our stores held 161 festivals, races, century rides and triathlons across the country. An estimated 110,000 people participated in run crews, ride meet-ups and in-store clinics (not including festivals). We also sponsored events such as the Banff Mountain Film Festival, the Vancouver International Mountain Film Festival, BC Enduro mountain biking series, Big Festival and WayHome. Through community partners and advocacy groups, we were involved with Bike Week activities across Canada and HUB Cycling's Bike the Night, which attracted 3,500 people.

In 2017-18, we began offering MEC MTB Trips: guided, all-inclusive multi-day mountain biking trips in some of the world's best backcountry terrain. Two unique BC-based trips were offered, one in the Sea-to-Sky corridor, and the other in the South Chilcotin mountains.

To help MEC understand how our outdoor events, activities, investments, programs and partnerships support MEC's purpose, we completed a benchmark year of research with Environics, a leading marketing and public opinion research firm. We want to know more about the outdoor activities in which Canadians participate, and establish metrics to measure the long-term impacts of our community engagement and outdoor programs.





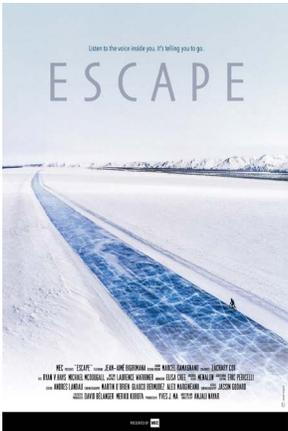
Outdoor Nation: We hosted three MEC Outdoor Nation summits in 2017-18. 233 participants attended the Think Outside Summits in Toronto, Montreal and Vancouver. The focus was on welcoming attendees from diverse backgrounds into inclusive environments. Through the summits, we strengthened our partnerships with more than 35 organizations and funded 13 projects, all with the aim of reducing barriers to the outdoors, and inspiring urban young adults to try new activities and embrace a life lived outside.

Parks Canada: In celebration of Canada's 150th birthday we partnered with Parks Canada to distribute free Discovery Passes to national parks and historic sites. In 2018-19, we began offering Discovery Passes for sale in stores. As part of our longstanding partnership with Parks Canada, we held 32 Learn-to-Camp events in 24 national parks and national historic sites, with 1700 participants in these overnight events.

Ambassador Program: MEC Ambassadors had a tremendous impact in 2017-18. Through Community Investment initiatives like Outdoor Nation and Protect Our Winters (a campaign to raise awareness of the impact of climate change), in helping shape the direction of MEC-label products, and in telling their stories through words and images, they make meaningful connections with members.

Highlights in 2017-18: Olympian Beckie Scott, Canada's most decorated and successful cross-country skier, became an Ambassador. We worked on a video project featuring Sarah Hart and Jenny Abeeg climbing All Along the Watchtower in the Bugaboos. Bruce Kirkby traversed (and GoPro recorded) an exposed ridge while testing the MEC Light Obsession Hoodie. Joshua Lavigne went behind the scenes with our designers on a backcountry ski trip.

MEC Mini-Documentaries: In 2017-18, MEC commissioned three unique and highly personal short documentary films by three leading Canadian film makers from diverse backgrounds. By sharing these stories, MEC aims to foster dialogue about the lack of representation of people of colour in the outdoor industry.



Good Times Outside™

Good Times Outside is our brand campaign to help build and inspire a nation-wide community of outdoor enthusiasts. In June 2017, we launched a [Good Times Outside website](#) to spotlight unique outdoor activities across the nation. The site features low-barrier activities based around hiking, biking, running, camping, watersports and climbing, all within a few hours of an urban center. Advice and gear recommendations from local MEC staff experts set users up for success outside. In addition to the self-guided activity ideas, the site includes organized events such as major festivals and pop-up activities like sunrise hikes, bike crawls and adult summer camps.

WHAT'S NEXT

In 2018–19, we will expand our Community programming to represent the diversity of our membership. We aim to bring more gender equality and diversity to our Ambassador program and to expand the diversity represented by our partners, making more efforts to be inclusive in our programming.

We'll continue our research with Environics to understand Canadian interests and outdoor activity levels, as well as representation by Canada's diverse population. With 2017 benchmark data for Canadian outdoor activity levels, we'll set tangible goals to measure our ability to deliver on our purpose in the years ahead.

We also have exciting tactics to increase awareness of Outdoor Nation, including an Ambassador program to enable young community leaders to inspire others. We'll use the Good Times Outside platform to activate our Outdoor Nation community. We'll build our adventure travel strategy, launching small international and domestic offerings in 2018–19. Finally, in 2018–19, our three mini-documentaries will be released at film festivals in Canada and around the world. We look forward to participating in the dialogue around the lack of representation of people of colour in the outdoor industry.



BIG DAY OUT

Big Day Out is a way for staff across the country to demonstrate what Good Times Outside means to them. Launched in 2017–18, this initiative engaged teams from every province, with winning teams given up to \$1,000 to bring their ideas to life.

There were 25 winners whose events included: a day of trail building at the Jones Road crag in Winnipeg, a canoe flotilla to a movie on an Ontario river, a stand-up paddleboard dodgeball tournament in North Vancouver, and mountaintop ice cream in Kelowna.



EMPLOYEE EXPERIENCE AND ENGAGEMENT

OUR APPROACH

Having great staff is what sets MEC apart. That's why we hire and support people who are passionate about the outdoors, bring that passion into our culture, and are committed to meeting the needs of members.

A top priority is supporting our staff, and making MEC a great place to work. Through competitive compensation and benefits packages, and comprehensive health and safety practices, we develop a culture of collaboration and ensure staff have the tools to do their job. We conduct annual staff surveys (Pulse Checks) to gauge employee satisfaction, and assess organizational strengths and challenges.

PERFORMANCE IN 2017-18

By the end of February 2018, we had 2,666 employees. Approximately 216 were added in the last fiscal year to support three new stores and large IT projects. Similar to past years, fewer than half of new store hires were full time.

In today's increasingly competitive climate, we need engaged and motivated people to provide the member service we aspire to. As a result, last year we took a hard look at our people practices, shifting our HR department's focus to create a People Experience culture, where employee potential is identified and nurtured. We also revamped some areas of organizational design and capability to create more accountability and ownership for staff and managers.

Pulse Check: The 2016–17 Pulse Check indicated that we could do a better job of managing change. In 2017–18, we took steps to identify barriers to change management and provide support to staff. We are helping build capability in our staff in not just managing change, but leading change by learning to think and design intuitively. To support that work, we launched the MEC Change Model and began training staff and managers.

In fall 2017, we conducted an 18-question Pulse Check survey. 90% of staff took part, which is an excellent rate. Our overall engagement score remains high, but fell three percent to 73%. 82% said they were proud to work at MEC, while 53% expressed concern about the lack of growth opportunities. To address opportunities for growth and development, we are simplifying work levels and ensuring that, at every level, people understand what it takes to move up or across our organization. We also finalized our succession planning processes.

Wage increases: We strongly believe in paying staff a decent wage. In 2017–18, we topped up the minimum wage increases in Alberta and Ontario. We will continue to monitor minimum wage increases across all provinces and adjust our salary scales accordingly. While we support these increases, we recognize they have significant financial implications, and require us to plan for the future very carefully. Our approach is to offer our employees a total compensation package and an overall experience that attracts and retains talent. We will continue to pay people fairly and make MEC a great place to work.

Health and Safety: 500 employee health and safety incidents were reported, compared to 341 in 2016–17. An increase was expected, as three new stores plus the Eastern Distribution Centre increased employee hours worked and the number of race events held. We made significant efforts to encourage incident reporting so trends can more accurately be identified and addressed.

Diversity: We continued to explore ways of addressing diversity across our workforce. Identity and diversity go hand-in-hand, and we know that identity cannot be defined solely in terms of gender. Yet gender does provide one measure of diversity at MEC. Among employees, 43.5% identify as female. The number dips slightly among managers, to 42.3%, while at the executive level the breakdown is 50% female, 50% male. Similar to health and safety policies, processes and KPIs are important to ensure compliance and accountability, but we also need to understand mindset. The data tells us that diversity and inclusion is important, but do our staff know how they uniquely contribute to the organization? Do we know why people chose to shop with us or work with us? This is where we are beginning our research.

HR System: The first phase of the HR system launched in fall 2017 ([see page 12](#)). The system reduces administrative tasks, making the HR experience more seamless for staff and managers.

WHAT'S NEXT

In 2018–19, we will work on creating more intuitive core competencies for managers. We will also work on organizational capabilities to enable staff to better respond to change and to help them think intuitively. We'll address the results of our 2017–18 Pulse Check, implementing our findings in 2018–19. On the compensation front, we'll work with our cross-functional teams to find ways to make our compensation offer more competitive. Looking to pioneer and build capacity, we'll look at jobs likely to be automated in a changing marketplace, and help develop staff to take on new roles.

In 2018–19, we will simplify our health and safety processes to make them more impactful. Accountability for this will be made more transparent through the organization, with a revised corporate policy that outlines responsibilities and expected behaviours across all levels. We'll also develop a health and safety risk profile to enable robust oversight of risks and controls, with the aim of driving continuous improvement.



HERE FOR MEMBERS

At MEC stores across Canada, our staff remain committed to member service. They regularly go above and beyond what's expected of them to help members. Here are some highlights:

CALGARY

While supporting the Crowsnest Enduro in July (a 47km ride with 1,600m in elevation gain), three staff mechanics were on site, as well as the Intense Cycles demo team. Midway through the race, a rider crashed. His brake tabs ripped off his bike fork, with no hope of repair. Fortunately, the Calgary staff worked with the Intense team, who agreed to lend the rider a new Intense Tracer to finish the event. He didn't make it to the podium, but was thrilled to finish the event on an awesome bike.

VICTORIA

Staffer Jonathan Benny was helping a member who wanted to buy a kayak, but couldn't find one that was right for her. Jonathan felt that the EDP Delphin 150 would be a good fit, so on his own time, he took the member out on the water to demo the boat. Knowing she had shoulder issues, he let her try his lightweight bent shaft carbon fibre paddle to make the experience more smooth and enjoyable. She loved the experience, and the next day went into the store and purchased the boat. To make things even better, Jonathan gave her his bent shaft carbon fibre paddle. True member service!



LONGUEUIL

One afternoon, a member came to the Longueuil store, and asked staffer Holly Jones about hiking in the Adirondacks. As a newcomer to hiking, she was unsure about where to go and what to bring. Holly thought of her mother Gail, a former MEC staffer and avid hiker who loves hiking in the Adirondacks. Gail took the member out on a hike, and the two of them have become hiking partners and best friends. The member even attended Gail's wedding this past fall. For Holly, her mother Gail has always been her best example of a dedicated staff member.

EDMONTON

When staffer Matthew Blake began helping a member who was looking at bikes, he noticed that she was becoming very distressed. Eventually, she told Matthew she was autistic, and that her brother wasn't able to help her look at bikes that day. Matthew indicated it wasn't a problem. He ended up spending hours with the member, patiently explaining the options to her. At the end of their interaction, the happy member purchased a fully kitted-out bike and left the store, excited to go for a ride.





MEC'S ECONOMIC CONTRIBUTION

OUR APPROACH

As a co-op, we endeavour to have a healthy organization and make sure our member offering is as compelling as possible. We're not profit focused. However, we operate in the same competitive environment as other businesses. We need to compete as hard as anyone else. A strong balance sheet helps us to be resilient.

Our success depends on healthy cash flow, effective movement of inventory, ongoing store development and productive use of floor space. It also depends on investment in product development and management of costs of goods, investment in appropriate systems and tools, employment and training of staff, and integrity and trust with our members and stakeholders. We prioritize our investments and expenses to achieve this. We also put an internal price on carbon to integrate carbon costs of product transport, facilities, and travel into our business decision-making.

Patronage Returns and Share Redemptions

In years of profitability, MEC returns surplus earnings to members. Members who shop at MEC on a regular basis accumulate more patronage shares in MEC, and benefit the most from MEC's success. When the financial conditions are right, MEC buys back some patronage shares from members' share accounts. We return the money to members in the form of gift cards that equal their share redemption amount.

PERFORMANCE IN 2017-18

Our sales were \$455 million. Sales have increased year-over-year for numerous years, and our website is our single largest sales channel. However, as a result of uneven weather patterns, including an uncharacteristically cold summer in central Canada, as well as rampant wildfires in BC and Alberta, we didn't get the sales we wanted, and had some unanticipated product clearances, which impacted our margin.

Our selling and administration expenses were 35% of sales. With project work expected to continue over the next few years, spending has been somewhat higher than it has been in the past. During this time of intense capital and non-capital investments, we are practicing financial restraint to reduce spending and focus on efficiencies. As a result, we showed an operating deficit of \$14 million for the financial year. We anticipate a return to operating surpluses in 2019.

However, due to the sale of a large real estate asset, we showed a surplus of \$11.7 million for the 2017-18 financial year.

At the end of 2017-18, we owned \$362 million in assets (cash, inventory, property, equipment, accounts receivable and other assets). We owed \$163 million (payables, gift cards, loans and obligations). Our members invested \$189 million in equity (member and patronage shares).

Remaining financially healthy and achieving modest surplus earnings remains an objective of MEC's Board and management. This is balanced against the need to make investments into our store network, systems and tools to ensure we can

operate efficiently and are well-positioned to meet our members' needs – both now and in the future.

Economic Impacts

MEC's operations in Canada make a significant contribution to the Canadian economy. In 2017-18, we estimate that we created approximately \$1.38⁴ billion in direct spin-off economic activity through our operations, payroll, member spending on outdoor recreation, and community contributions.

Patronage Returns and Share Redemptions

In 2017-18, owing to the operating deficit, we decided not to issue a patronage return. We also decided not to do a share redemption as, based on our assessment, it was determined that retaining the capital within MEC would provide a better outcome, rather than returning that capital to members.

WHAT'S NEXT

Companies that are struggling are generally doing so because they are unable to quickly adapt to the changing needs of customers. Moving forward, we will continue to keep our members' needs at the forefront of every decision, while making prudent financial decisions that ensure we remain healthy and agile. We believe that by staying committed to our purpose and values, we will continue to differentiate ourselves as a leader in the market.



⁴ Carnegie Mellon University Green Design Institute. (2018) Economic Input-Output Life Cycle Assessment (EIO-LCA) Canada 2002 (105 sectors) Producer model [Internet]. Available from: <<http://www.eiolca.net/>> [Accessed 8 Jun, 2018]



WE WANT TO HEAR FROM YOU

We continue to focus on making sure we are best serving members' needs in the activities we support. Your feedback matters most of all.

Let us know how we're doing at info@mec.ca.

RANKED #1 AS CANADA'S BEST BRAND
[CANADIAN BUSINESS]

RANKED #1 AS CANADA'S MOST
TRUSTED BRAND
[GUSTAVSON BRAND TRUST INDEX]

RANKED #1 UNDER THE ENVIRONMENTAL
LEADERSHIP CATEGORY
[RETAIL COUNCIL OF CANADA]

NAMED AS ONE OF CANADA'S BEST
EMPLOYERS [FORBES]

