

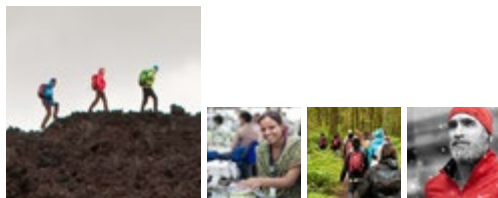


# IT'S COMING TOGETHER OUR BUSINESS AND ACCOUNTABILITY PERFORMANCE IN 2014: WHERE WE'VE BEEN AND WHERE WE'RE GOING

In 2014, many things came together. Over the last few years we've concentrated on a number of initiatives, including the rebranding of MEC, a broader product assortment, store-hosted community events, and omni-channel improvements to provide seamless online and in-store shopping. Last year, these initiatives gained even greater momentum and cohesion, and we're extremely pleased to see our efforts come into fruition.

It's been an exciting year. We opened a new head office, which encourages healthy active lifestyles and embodies environmental sustainability, innovation and collaboration. We launched a nationwide initiative focused on getting young people outdoors. To effect greater change, we collaborated more with our suppliers and factories to improve social and environmental performance throughout the supply chain.

Our vision remains the same: offer incredible products and superlative service, embed sustainability practices throughout our business, help conserve the outdoors, and get people engaged in active lifestyles. Our staff members are our greatest ambassadors, and they bring talent, vision, and enthusiasm for the outdoors to work every day.



## MEC AT A GLANCE

### ABOUT MEC

First established in 1971, MEC is Canada's leading specialty retailer of clothing, gear and services for active outdoor lifestyles, including hiking, climbing, cycling, running, camping, fitness, yoga, snowsports and watersports. As of December 2014, we had more than 4.3 million members, serving them at 18 stores in six provinces, and through [mec.ca](#) and mobile platforms. As a co-op, MEC is owned by its members, who join by purchasing a \$5 lifetime individual membership.

### 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.

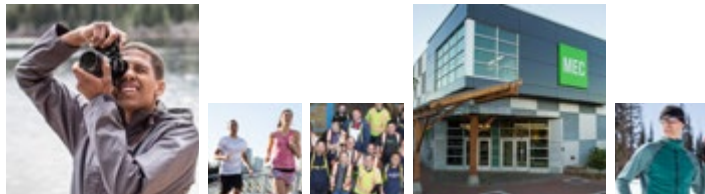
### OUR GOAL

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

We consistently play a leading role in integrating sustainability efforts into our business. To better demonstrate this work, we've evolved our annual and accountability reporting into a single integrated account of our performance. This 2014 Annual Report outlines the reality of our business model, how it drives us, what our social and environmental impacts are, and how we address those impacts through our operations and the products we sell. We also aim to show how we provide value to our members—not just through what happened in 2014, but in our efforts over the short, medium and long term.

We mainly prepared this report for members and staff, as well as the business, sustainability, and co-operative community. For more information about our programs and how we calculated the data in this report, see [mec.ca/sustainability](http://mec.ca/sustainability).



**HIGHLIGHTS OF 2014**  
**\$336 MILLION IN SALES**  
**12 MILLION PRODUCTS SOLD**  
**4.3 MILLION MEMBERS**  
**3.9 MILLION MEMBERS IN CANADA**  
**5024 EVENTS**  
**18 STORES IN CANADA PLUS MEC.CA**  
**1936 EMPLOYEES**



## MESSAGE FROM THE CHAIR

What's important to our members? Trust. Lots of places sell outdoor gear, and many of them do it well. But what members value most is knowing that we deliver quality products and advice we can stand behind, while incorporating ethical and sustainable business practices, and a commitment to the environment.

MEC exists to inspire people to get outside. For us, 2014 was a big year because of the number of events we hosted (there were thousands across Canada!), from races to bike maintenance, often at low or no cost. (Who else offers a race for \$15?) For me, this is key: "getting outdoors" isn't just a corporate vision that we concocted in a board room. It's what we care about.

MEC Outdoor Nation was another amazing demonstration of that idea, and was a way of engaging young people to write their own story about being more active. It's fantastic to see people discovering the outdoors and its ability to energize and enrich our lives.

When it comes down to it, it's about meeting our members' needs. That's our primary objective. If we don't do that, we haven't succeeded. As we head into another year, the Board remains committed to ensuring we provide value to our members, not only today, but far into the future.

Sincerely,

**Margie Parikh**  
Board Chair



## MESSAGE FROM THE CEO

It's been another interesting, exciting year at MEC. I'm proud that at its core, we continue to play an even stronger role in enabling healthy, active lifestyles.

The retail environment continues to get increasingly competitive, and the world is changing exponentially, so we have to be good to stay in front. However, even as we change, we remain passionately driven by our purpose. We do that through aligning our brand, people and culture.

Yes, we continue to face uncertainty and changing consumer habits; that's not going to change. Some big global organizations are now playing in our space. So how do we proceed? We continue doing what we're doing. We grow deliberately and make careful choices. We stay smart. We consistently engage members and get them active. And we retain our authenticity while addressing the needs of the future. Staying authentic and real to our members is still at the heart of MEC.

On a sustainability front, we are working with our suppliers on some industry-changing initiatives, have made great progress in understanding and managing our carbon footprint, and have set an internal price on carbon, which guides our decision-making. We also launched our first in-house line of Fair Trade Certified™ apparel. And we rolled out a new initiative, MEC Outdoor Nation, to get youth outside and staying active. Because we're a service-oriented organization, staff at MEC play a particularly critical role; we're fortunate to have so many talented people in our organization.

I look forward to the coming year and to continuing to strengthen all aspects of the Co-op, so that we remain as relevant and vital as ever.

Thanks for supporting us in our efforts.

Sincerely,

**David Labistour**  
CEO





# YOUR CO-OP'S SCORECARD

## MEC'S PERFORMANCE SUMMARY FOR 2014

Goals achieved: ✓

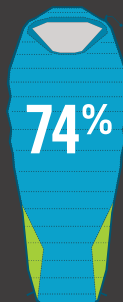
Goals not achieved: ✗



### ENVIRONMENTALLY PREFERRED

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

2014: ✓  
2015 goal: Increase



### BLUESIGN®-APPROVED MATERIALS

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

2014: ✓  
2017 goal: 100%



### FAIR TRADE CERTIFIED™ MEC PRODUCTS

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

2014: ✓  
2015 goal: 4

25



### CEO-LEVEL CONVERSATIONS

Between MEC and our major brands about their social and environmental programs.

2014: ✓  
2015 goal: 50

1.03%

### PRODUCTS RETURNED

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

2014: ✗  
2015 goal: <1% of sales



98.8%

### IN-STOCK ITEMS

On the store floor and available for purchase.

2014: ✓  
2015 goal: 97.4%

96,561

### PARTICIPANTS

At MEC events or at programs funded by MEC.

2014: Set a baseline  
2015 goal: Increase

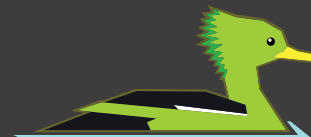


38.1%

### ACTIVE MEMBERS

Of the members who made a purchase at MEC over the past 10 years, 38.1% of them made a purchase in 2014.

2014: ✗  
2015 goal: 37.7%



\$3.26M

### TO COMMUNITY INITIATIVES

As part of our 1% for the Planet commitment.

2014: ✓  
2015 goal: 1% of sales (previous year)

89.2%

### MEMBER SATISFACTION

Satisfied or very satisfied with service in stores.

2014: ✓  
2015 goal: 88%

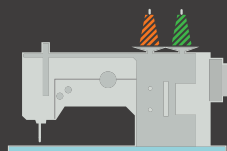


22.7M

### LITRES OF WATER

Used in our buildings.

2014: Set a baseline  
2015 goal: Decrease



38%

### FACTORIES MET OR EXCEEDED EXPECTATIONS

Based on our Code of Conduct standards for working conditions.

2014: ✗  
2015 goal: Increase

5

### FACTORIES WITH UNACCEPTABLE VIOLATIONS

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

2014: ✓ (down from 2013)  
2015 goal: Toward zero

91%

### WASTE DIVERTED

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

2014: ✗  
2015 goal: 92%

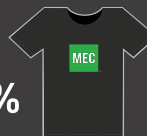


63%

### EMPLOYEE ENGAGEMENT

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

2013: ✗  
(no survey in 2014)  
2015 goal: Update metric



4948 TONNES

### CARBON FOOTPRINT

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

2014: ✗  
2015 goal: Reduce



2.53

### INVENTORY TURNS

Times we sold through and replenished our inventory.

2014: ✓  
2015 goal: 2.34



\$336M

### ANNUAL SALES

Thanks for supporting MEC!

2014: ✓  
2015 goal: Increase



## GOVERNING MEC

As a co-op, MEC has a democratically owned business structure. Members pool their resources to obtain access to products and services that support active outdoor lifestyles.

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 senior management team to provide vision and strategy for MEC. Major decisions, such as capital expenditures (new stores and systems), are made by the Board as a whole. The Board structures its work through various committees: Finance and Audit, Nominations, Governance, Human Resources and Compensation, and Sustainability.

We conduct yearly internal Board assessments, and in 2014 we also conducted an external Board assessment (considered a governance best practice) to ensure our Board is operating as effectively as possible. As a result, we'll be revisiting and improving our strategic planning processes, and redesigning our director orientation program. Other projects included strengthening our risk governance practices, and continuing to embed sustainability into governance, to reflect the way sustainability goals are already embedded throughout the organization.

In 2014, we implemented changes to the nominations process (approved by members at the 2013 election), to ensure election candidates possess the skills, experience, and values needed to maintain a strong Board. It's imperative that MEC continues to have strong and balanced leadership, and is able to grow and succeed in an increasingly competitive and complex retail environment. The Board now recommends a selection of candidates based on an assessment of how well they meet the needs of our Co-op.

We're pleased that in 2014 we had the highest voter turnout in 15 years, and the third highest in our history, with 47,523 members voting. Why the increase? We had a stronger group of candidates, a mobile-optimized website, an easier online voting process, and more effective election campaign materials, including targeted emails to members.

While these election results are a decided improvement, the fact is that just over 1% of members voted. In future years, we'll work even harder to retain past voters and engage new voters.

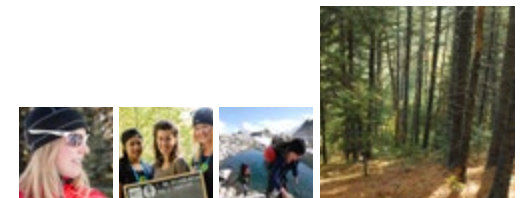
For a more detailed governance disclosure report, including Board processes, and nomination and election information, please see [mec.ca/annualreport](http://mec.ca/annualreport).

## OUR BUSINESS MODEL AND STRATEGY

MEC is a Canadian-based retail co-operative with a well-established private label and a global supply chain. Our business model is guided by a commitment to serve our members and be socially and environmentally responsible, but it's also driven by the need to remain financially viable in an increasingly competitive world. Granted, that's not always easy.

Our strategy is to provide innovative, appealing products that represent outstanding value for money. MEC-brand products are the cornerstone of our offering. We have staff who are active, supportive and knowledgeable. We encourage participation in the outdoors through events such as runs and training courses. And we remain committed to our sustainability initiatives. When members buy an MEC-brand product, they know it was thoughtfully and responsibly sourced.

We also rigorously apply a long-term view to our decision-making so we can provide value for members now and in the future. We don't just look at the business case of what's going to pay off right now. We have a very disciplined approach in where we're going and where we should invest, and do that by staying in close touch with our members and our communities. We continually steward MEC in our members' best interest.

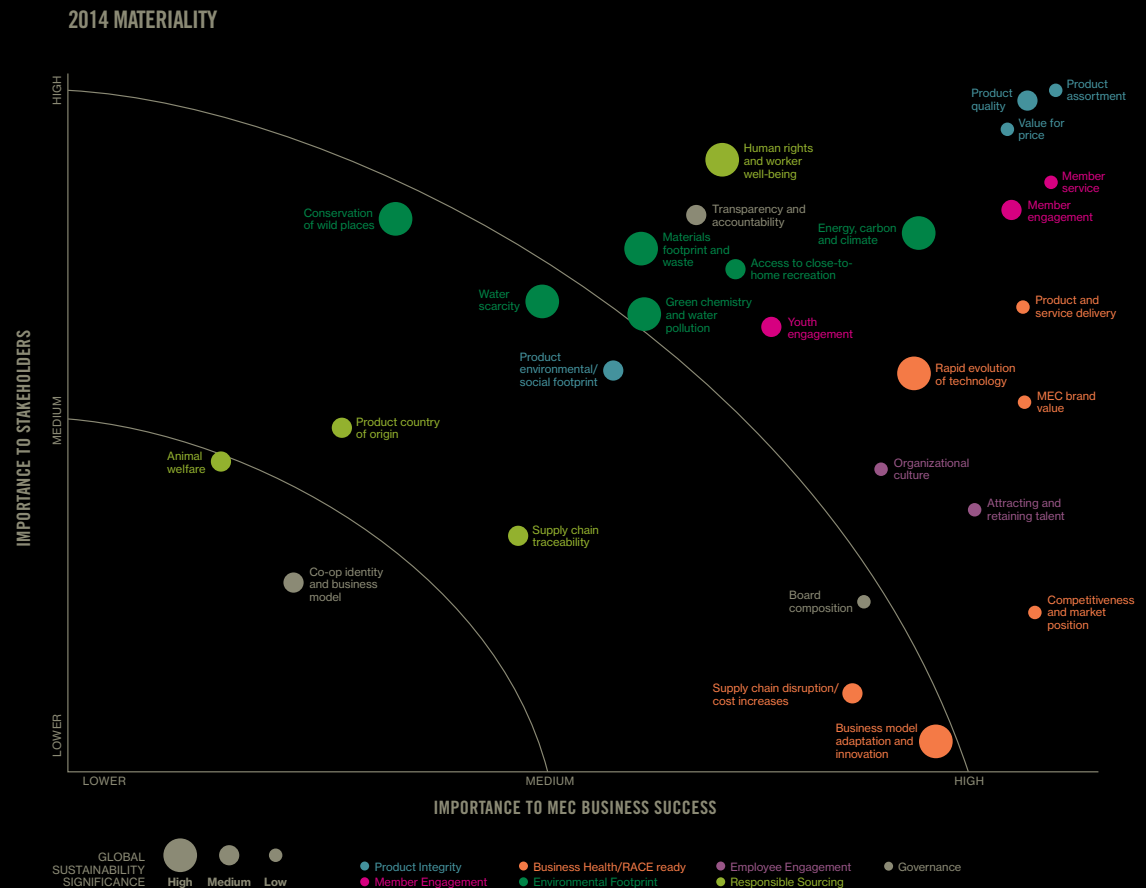


# MATERIALITY AND APPROACH TO RISK

We've conducted materiality analyses since 2009, and we update our material issues annually to focus on areas that help us remain a sustainable and economically viable business. By clearly understanding our business model and what's most relevant to our members and our stakeholders, we can mitigate our biggest social and environmental impacts and risks, and prioritize our strategy and reporting.

For instance, apparel manufacturing uses a large amount of water and chemicals for textile processing, so we work to mitigate our impacts by buying organically grown cotton and partnering with organizations such as bluesign®. And because we operate stores and a distribution centre, and ship products all over the globe, we focus on our carbon footprint and increasing our efficiency. We know that apparel and gear manufacturing is a labour-intensive process, so our decisions have the potential to positively and negatively impact the lives of workers who don't work directly for MEC.

MEC's risk factors are largely around increased competition and changing consumer habits, particularly the way people spend their leisure time and the amount of time they spend outdoors. To manage risk, we govern the Co-op in the most prudent manner, remain nimble, and maintain a lean business. We also look at sourcing materials and manufacturing products that our members can trust. In doing so, we become less prone to large disruptions within our supply chain.



# 2014 PERFORMANCE

## OUR PRODUCTS

As an outdoor retailer, products are the lifeblood of our business. The core of our product offering is the MEC brand, which is designed in Vancouver and produced through our contract factories. MEC also sells apparel, footwear and gear from leading global brands and niche activity-oriented brands. Product assortments are divided into three business units:

### Backcountry

Climbing, paddling, snowsports, hiking, camping

### Active lifestyle

Running, Nordic skiing, cycling, yoga, fitness, snowshoeing

### Lifestyle

Everyday living, travelling, kids

Our primary goal is to cater to our members and provide the products that are most able to fulfill the needs of people doing the activities we support. This includes functionality, style, and regional preferences, as well as changing trends in the way Canadians recreate. Our efforts are paying off. Despite competition and a very warm winter (which translates into declining snowsports sales), our 2014 overall sales growth was 5%.

While we've diversified our assortment over the years, our backcountry selection is stronger than ever, and we offer more technical products every year. In fact, in 2014, backcountry represented over half our revenue. At the same time, we continued to strengthen our MEC-brand active lifestyle and lifestyle products in 2014—including design, production and sourcing—and are always working to create a first-class brand that's most relevant to our members.

Our cycling line-up has evolved substantially, and in 2014, our assortment more than doubled. We also expanded our in-store bike shops with an even higher level of service. The addition of Ridley Bikes complements our assortments nicely.

Finally, camping, trail running and Nordic have been growing segments, so we're making sure we keep up with the needs of our members in these areas, as well as other activities.

## PRODUCT SUSTAINABILITY

Products continue to represent the single largest part of our environmental and social footprint, and we work to reduce these impacts as much as possible. Product Design Principles provide the foundation for building innovative, functional and durable MEC-brand products. Our product integrity criteria include performance, value, aesthetics, sourcing and environmental footprint.

### Sustainable Apparel Coalition and Higg Index

We're a founding member of the Sustainable Apparel Coalition (SAC), a coalition that now represents 40% of global apparel and footwear organizations. We have adopted the SAC's Higg Index, a groundbreaking industry tool that measures the environmental and social performance of apparel and footwear products. Ultimately, the goal of the Higg Index is to understand and quantify sustainability impacts, and to create a common way of communicating sustainability to consumers.

In 2014, we started introducing the Higg Index's social and environmental assessments to our supply chain. We were also part of a working group that's building a tool for designers so they can factor in environmental impacts of materials and design choices into products, and make better decisions as a result. In 2015, we'll continue to roll out the Higg Index to our supply chain partners, and will begin to use Higg scores to gauge how they're doing. This will allow us to see how both MEC and our suppliers are performing against industry norms.

We have a responsibility to support our suppliers as they make improvements. In 2015, we will introduce our supply chain to a program to help them use energy more efficiently in their factories. This program has been used with hundreds of factories in China, which have achieved an average cost savings of 11%.

### Bluesign

We continue to work closely with bluesign®, an organization that has established standards for environmentally preferred materials, in order to minimize the negative environmental and human health impacts of textile processing (such as emissions, waste, wastewater, and soil and groundwater contamination). In 2014, 74% of MEC apparel and sleeping bag materials were bluesign approved, a 3% increase from 2013. Of the product styles we sold, 1068 were made with environmentally preferred materials (compared to 658 product styles in 2013). Our goal is for 100% of MEC-brand materials to be bluesign approved by 2017.



We've also been encouraging our suppliers—from raw material suppliers to factories—to expand their catalogue of bluesign-approved materials. Finally, we continue to bring in more brands that share our commitment to bluesign, which builds momentum towards scaled change, and offers our members more products made with environmentally preferred materials.

In 2015, we want to go a step further and quantify the benefits of using bluesign-approved and other environmentally preferred materials, so we can estimate the reductions in water, energy and chemicals use.

#### **Wholesale Brand Partner Sustainability Program**

In 2014, to further our efforts to increase awareness and share best practices with our partners and suppliers, we began a Wholesale Brand Partner Sustainability Program. Our goal is to encourage widespread industry adoption of chemical and environmental management systems in manufacturing (e.g., bluesign system), use of environmentally preferred materials in product (e.g., organic and recycled materials) and use of industry-wide social or environmental performance assessment tools (e.g., Higg Index).

In 2014, our CEO sent a questionnaire to the CEOs of our strategic brand partners to find out about their product sustainability work. To date, 25 of 57 suppliers have responded. In 2015, we will expand our efforts in this area. Our goal is to increase knowledge about sustainability in conversations with our brand partners, and learn as much as we can about the products in our stores.

#### **Organically Grown Cotton**

We only sell apparel made of organic cotton for both MEC and wholesale brand products. While we've always believed that organically grown cotton has a lower environmental impact than conventionally grown cotton, there wasn't any comprehensive data available to demonstrate the difference.

To quantify the benefits, we joined forces with the Textile Exchange and 13 other brands (including H&M, Nike and Prana) in 2013, and funded a Life Cycle Assessment (LCA) that investigated the environmental impacts of organic cotton. The LCA focused on the top five countries of organic cotton cultivation: India, China, Turkey, Tanzania and the US (97% of global organic cotton production).

In 2014, the findings were released: compared to conventional cotton, organic cotton has a 46% reduction in global warming potential, a 26% reduction in nutrients leaching from soil erosion, and a 91% reduction in blue water consumption (water withdrawn from groundwater or surface water bodies via irrigation), as well as 70% less acidification potential and 62% reduced primary energy demand.

This LCA report is an exciting validation of our sustainability efforts, especially for our materials team. We're confident that the study results will create more demand for organically grown cotton, and help shift our entire industry to use this lower-impact crop.

#### **Down**

MEC prohibits suppliers that make MEC-brand products from using down or feathers from birds that have been subject to either live plucking or force feeding. However, industry certification standards for down only recently came into place. We're working with our down suppliers to ensure compliance with these new industry standards, and expect to have our down 100% certified by fall 2016.

### **HUMAN RIGHTS AND WORKER WELL-BEING**

We believe our gear should be made in a way that respects the people who manufacture it. Through our Responsible Sourcing Program, we work to improve factory conditions, including legal working hours, safer environments, and reasonable pay for work done. MEC is one of only 21 organizations in the world to achieve accreditation from the Fair Labor Association (FLA), a global organization dedicated to protecting workers' rights around the world. We continue to improve our sourcing practices through factory audits, training to support our suppliers as they remediate issues, close collaboration with factories, partnerships with organizations such as the United Nation's Better Work Initiative, and participation in the FLA's Sustainable Compliance Initiative, a comprehensive assessment system for measuring factories' management system practices.

In 2014, we updated our sourcing strategy to create more accountability at our factories. We set up a firmer process for handling remediation, better solidified relationships, and optimized our supplier base to reduce our footprint, simplify logistics and mitigate risks. We now utilize a tiered system that ranks factories according to criteria such as safe working conditions, quality and delivery, and have a system of constant review to ensure compliance. For the safety of workers, we now have stricter fire and building safety standards, which has led to a lower percentage of factories meeting our requirements. This decline can feel like one step back, but in reality, it meets our own standards of continuing to raise the bar in supply chain performance as we push for constant improvement.

If factories have unacceptable Code of Conduct violations, we give them a six-month timeline to correct the violation, or we seek a new supplier. This new approach means we take firmer action when there are issues.

In 2014, 38% of our factories met or exceeded our expectations, compared to 31% in 2013.

# WHY WEAR ORGANIC?

Cotton is natural, soft and easy to dye. But how it's grown makes a difference. MEC carries 312 products made with organically grown cotton.

## Organically grown cotton



**NO**  
chemical insecticides or pesticides



**NO**  
chemical soluble fertilizers



**NO**  
Genetically Modified Organisms



**62%**  
reduced energy demand



**46%**  
reduced global warming potential



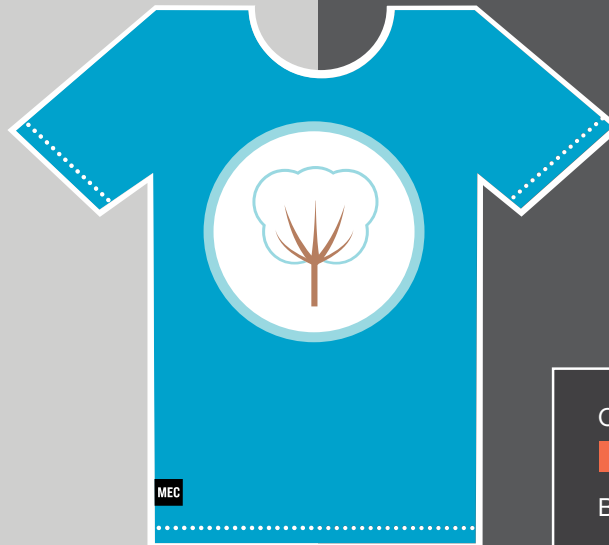
**70%**  
less acidification potential



**26%**  
less nutrients leaching from soil



**91%**  
less water taken via irrigation



## Conventionally grown cotton

It takes up to **2700 LITRES OF WATER**  
to make **ONE T-SHIRT**

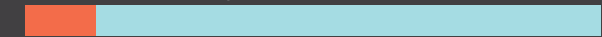


Only **2.4%** of the world's crop land is cotton



But it accounts for:

**11%** of the world's pesticide sales



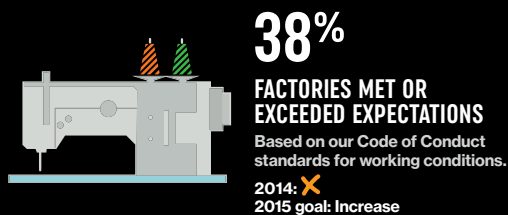
**24%** of the world's insecticide sales



Source:  
Textile Exchange (2014): Life Cycle Assessment of Organic Fiber  
WWF (2015): The Impact of a Cotton T-Shirt

While we strive to achieve a 100% target of factories with no violations, we know we have a long way to go. The supply chain is tremendously complex, and we're continually refining our supply chain partners so they're able to meet or exceed our expectations. Our approach has always been to work with factories to remediate issues so we can improve workers' lives, rather than moving our business elsewhere.

As a result, our 2014 goal was to have zero factories with outstanding unacceptable violations. Over the course of 2014, we found 11 unacceptable violations in 10 factories, and worked with our factories to resolve these violations. Three of the 10 factories resolved their violations. After repeated unsuccessful attempts to remediate, we chose to phase out two factories with unresolved violations. At the end of 2014, we still had five factories with outstanding unacceptable violations. For each violation, MEC has developed a remediation plan, which involves the factory, our sourcing and buying teams, the vendor, and other brands that also produce in the factory.



### Clear Voice Worker Hotline

In 2014, we moved forward on a Clear Voice Hotline Service. Through Clear Voice, workers will be provided with a toll-free phone number to voice grievances and concerns, with information provided in multiple languages. Urgent issues will be reported to our factory liaison and MEC within 24 hours, and a plan of action will be put in place to address worker issues as they arise. The pilot will launch in 2015.

### Fair Trade Certified

Last year, we became one of the first major brands to partner with Fair Trade USA by offering an in-house line of Fair Trade Certified™ apparel. MEC's Fair Trade Certified t-shirts provide tangible benefits for the factory workers who make them in Pithampur, India. For every Fair Trade Certified t-shirt we sold, MEC paid a cash premium into a special fund managed by the workers directly.

Workers use a democratic process to decide how to best spend the special fund, whether it's enhancing local community services or using it as a cash bonus to bolster their income. In fall 2014, workers used the Fair Trade premiums to purchase rain coats for all employees (in time for monsoon season). In 2015, we'll expand our line of Fair Trade Certified clothing to include men's t-shirts and will support another supplier as they go through the Fair Trade certification process.



# OUR OPERATIONS

Operations includes the systems, infrastructure and processes required 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 physical and e-commerce stores.

## Stores

A new 42,000-square-foot store in North York, Ontario, was projected to open in spring 2015, but was delayed due to unanticipated zoning and construction issues. Approximately \$1 million worth of inventory that was earmarked for North York had to be reallocated to other stores.

The North York store is now on track for a spring 2016 opening, and will be part of a mixed-use development that includes townhomes. The City of Toronto wanted greater density on the property, so MEC partnered with Broccolini Construction for the townhome portion to meet community planning objectives. (The townhomes are a separate project from the store development. We don't plan on being involved in residential developments in the future, but it was the right thing to do in this case.)

We opened an outpost store at the UBC campus in Vancouver, which also serves as an events hub to provide UBC members with opportunities to participate in events, clinics and races in the area. This is a trial project to test the viability of campus-based locations in Canada.

## Omni-channel

Omni-channel refers to a multi-faceted approach to sales that helps customers have a smooth and easy shopping experience, whether they're in store or online. In today's retail environment, omni-channel supply chain and systems are essential for organizations to remain viable and competitive. Nowadays, when people order merchandise, they want it shipped immediately. That means a company's supply chain and inventory management systems must work optimally (i.e., stores have products when they need them, systems are efficient, and delivery is expedient) and websites must be responsive.

Our omni-channel strategy has been a huge focus over the last few years. This includes improving our systems to enhance inventory flow and reduce the risk of running out of stock, and updating our infrastructure so we can continue to deliver on web and mobile platforms.

Our omni-channel efforts have been successful, but they have resulted in higher shipping costs. In 2014, we worked harder to improve the service while decreasing the cost. We also experimented with member pick-up stations in our Vancouver store, and with same-day delivery. Finally, we took steps to further improve our infrastructure for optimal member service.

In 2014, we:

- Rolled out a program to all stores to improve restock program efficiency, which helped ensure that products in the store are on the floor when members come in to shop
- Implemented a more accurate and detailed shipping and receiving process for Distribution Centre-to-store transfer (better store accuracy means better in-stocks for members)
- Launched our mobile website, which gives all mobile-using members a website that's easy to read and use on their devices
- Improved order delivery times and shipping costs through better inventory management processes
- Introduced real-time estimated date of delivery to our website

From a supply chain perspective, we've seen a 21.5% reduction in the time it takes to deliver products to our stores and members. We've also taken costs out of the supply chain, and made delivery faster and more efficient.

In 2014, our inventory turn rates (how often we sell through and replenish our inventory through the year) increased to 2.53 (from 2.3 in 2013). We're pleased with this improvement, as it shows our efforts are paying off.

In 2015, we'll install new web, email and database platforms that will provide more stability and flexibility, and continue to improve the web experience.

## Carbon Footprint

We currently measure four areas of our carbon footprint (i.e., our greenhouse gas emissions): product transport, business flights, facilities energy consumption, and waste. Product transport makes up the majority of our measured footprint, roughly 60%. We include our inbound, outbound, and small parcel shipments in our transport footprint. There is a direct link between carbon footprint and shipping costs; more effective freight management reduces both.

Our carbon reduction goal for product transport is to achieve a 6% intensity reduction per year (as a percentage of revenue) compared to our 2012 baseline. In 2012, our emissions were 10.47gCO<sub>2</sub>e/\$. In 2013, we achieved our intensity reduction goal and lowered our footprint by 6% to 9.84gCO<sub>2</sub>e/\$. In 2014, our footprint increased. Our target was 9.26gCO<sub>2</sub>e/\$, and our actual emissions were 10.15gCO<sub>2</sub>e/\$.

We're consistently trying to balance today's need to have product delivered as soon as possible, with concerns about the accompanying carbon footprint. However, we've made progress. We've lowered our carbon footprint on parcel delivery, and we're

looking at a program to reduce carbon footprint on deliveries from the Distribution Centre to stores. We've also set renewed carbon footprint goals for our buildings and facilities, as well as business travel. Finally, we've been incorporating a carbon price into our business planning and risk management strategies (see page 18).

Our overall goal is to achieve a 35% reduction in emissions from energy use by 2017. We're doing this in several ways. One is through energy efficiency measures and improvement, including our energy-efficient green buildings. We also buy renewable energy certificates for stores in high emissions-intense provinces. In 2014, to help us reduce our energy consumption and change behaviour, we began running a pilot with an energy and water monitoring dashboard that displays real-time energy and water data in stores. We'll continue to expand this program as it makes sense.

#### Water

While our green buildings have had water-efficient initiatives in place for many years (e.g., rainwater cisterns, low-flow toilets), we've never measured our water use. In 2015, we'll start collating data collected from 2013 and 2014 to establish a baseline and identify gaps in our measurement systems, and we'll set a target moving forward. We'll also monitor water usage with the dashboard described above.

#### Waste

Our ultimate vision is to achieve zero waste – an ambitious goal that takes a lot of planning, monitoring and creativity. In 2014, we achieved a 91% waste diversion rate, just shy of our goal of 92%. In 2015, we'll move to a single national provider for our battery collection program to better track our diversion rates.

**4948 TONNES**

#### CARBON FOOTPRINT

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

2014:    
 2015 goal: Reduce



**22.7M**

#### LITRES OF WATER

Used in our buildings.

2014: Set a baseline   
 2015 goal: Decrease



**91%**

#### WASTE DIVERTED

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

2014:    
 2015 goal: 92%

## HEAD OFFICE

In 2014, MEC moved its head office operations to a much-needed new facility in False Creek Flats of East Vancouver.

In line with our goal to reduce our operational and environmental footprint, our new Head Office is designed to a LEED Platinum standard (we'll know the final LEED level when it's certified, which can take up to a year), and is 70% more energy efficient than conventional office buildings. Its numerous sustainability features include natural lighting; energy efficiency and monitoring; passive cooling, heating, and ventilation; a high-performance building envelope; on-site water management and efficiency measures; and extensive landscaping. Outdoor amenities include a roof-top patio with vegetable planters and fruit trees.

Inside, there's natural light, fresh air and windows that open, space for collaboration and teamwork, as well as various amenities – a fitness and yoga studio, climbing room, bike storage, showers and change rooms – to create a unique, inspiring and highly functional work environment.

The new Head Office embodies MEC's culture of active outdoor lifestyles and healthy workplaces, and our drive to foster continual improvement and innovation throughout our operations. From technology to informal meeting places and shared workspaces, the building provides more areas for collaboration, which is essential for MEC to stay competitive, professional and resilient.

## A REINVIGORATED MEC BRAND

In 2013, we went through a rebranding process, which resulted in a new logo, look and feel. Our rebranding isn't just about a new logo, though. It's represented an opportunity to reaffirm our commitment to inspire people be active, and to bring a fresh enthusiasm and drive to our work.

We've felt this energy and renewed sense of purpose across multiple areas of our business, from a burst of interest in store-hosted activities, to our new Head Office, which inspires collaboration and activity, and further solidifies our company to the outside world. Our MEC-brand products have more functional, intuitive designs and continue to evolve to best meet performance needs. Our Bring It campaign (see page 17) values and motivates staff, and aligns our employees with our external brand. Our Ambassador team inspires members and validates gear, and our website is now more reflective of the energy and clarity of our organization.

We're proud and excited about what's happening at MEC. Let us know what you think: [info@mec.ca](mailto:info@mec.ca).



## MEMBER EXPERIENCE AND ENGAGEMENT

By the end of 2014, we had more than 4.3 million members. To gauge how we're doing, we conduct member surveys and market research, and get feedback through our website, email, social media, and in-store comment cards. In 2014, our member satisfaction rate was 89.2%, which we're happy about.

Of the participants who shopped with MEC in the past 12 months, 59% said they would recommend us to their friends and family, which makes us the top-ranked retailer in this category.

The greatest influx of new members is when we open a store. There were no store openings in 2014, which partially accounts for the fact that we had fewer new members in 2014 compared to previous years. However, for the health of our organization, we need to not only serve existing members, but continuously bring in new members and inspire people to get outdoors.

### **MEC Outdoor Nation**

One of the ways we're attracting and engaging young members is through MEC Outdoor Nation. Launched in fall 2014, MEC Outdoor Nation is a movement that focuses on getting youth outside. While MEC exists to inspire and enable everyone to lead active outdoor lifestyles, 19 to 30-year-olds are showing the steepest declines in activity. Many youth simply haven't had opportunities to experience the outdoors or the benefits that come from activities like camping, hiking or paddling. MEC Outdoor Nation aims to change that.

In September 2014, we held our first weekend Outdoor Nation Summit in Vancouver. This event brought together 131 young adults to achieve a common purpose: create and launch projects that inspire other young adults to be active outside. The top three projects each received \$1500 in funding from MEC: The Mentor Project, Go for Snow, and #MECExploreChallenge. Through our 1% for the Planet commitment, we were able to make the summit free to participants.

Our intention is to grow MEC Outdoor Nation across Canada. In 2015, we'll have summits in Toronto and Montreal that will host approximately 300 youth in total.

## STORE EVENTS

In 2014, we continued to promote and provide events through our stores. Our goal is to help lower the barriers to entry for members new to activities, while catering to the more experienced members of each community. The events—which range from 5K races to marathons and century rides—are affordable and feature everything you'd expect from a professional race (e.g., timing, course markers). They foster healthy and active lifestyles, provide year-round training support, and give members of all ages the opportunity to participate with the community.

For MEC events, 2014 was tremendously successful. We had the first MEC triathlons (with 265 participants), the launch of Rider Expo events in Canada's four major cities, free weekly spin classes in all our stores, and marathons and century rides from our larger stores. In 2014, we held 5024 community events in and around our stores, with 88,000 attendees. This included clinics and meet-ups, 45 festivals (Bikefest, Paddlefest, Snowfest, Icefest), 93 running races, 18 century rides, and more than 30,000 runners. We're now consistently breaking the 1000-person level of participation in our larger store races.

In 2014, we also continued to play a bigger role in sponsorships outside the stores, as well. Some highlights included a major sponsorship of the Pentathlon des Neiges in Quebec City, sponsorship of the Squamish Music Festival and Banff Mountain Film Festival, and supporting clinics at the Sea to Sky Gondola in Squamish (as well as being their official uniform provider).

# 2014 MEC EVENT HIGHLIGHTS

MEC

**5024**  
PROGRAMS  
**88,000+**  
PARTICIPANTS

**45**  
FESTS  
PADDLEFEST,  
SNOWFEST,  
BIKEFEST &  
ICEFEST

**93**  
RACES  
**30,000+**  
RUNNERS

**18**  
CENTURY RIDES  
**3400**  
RIDERS

MEC

MOST POPULAR RACE  
**CALGARY**  
1500 RUNNERS  
5K, 10K, HALF AND FULL MARATHONS

**28,000**  
BANANAS  
EATEN

**2483 KM RACED**

THE SAME DISTANCE AS

WAWA, ON TO HALIFAX, NS

**FASTEST  
MARATHON  
TIMES**

**MEN'S  
2:52:57**

**WOMEN'S  
3:09:23**

## Grants

We are a member of 1% for the Planet, a global movement of companies that donate at least 1% of their annual net revenues to environmental organizations. Through this commitment, we donate 1% of previous year's sales to community causes.

In 2014, community contributions totaled \$3.26 million. This included more than \$467,000 to access and activity initiatives to increase existing and new members' participation in self-propelled outdoor recreation. We also provided grants totaling more than \$1.7 million for organizations and initiatives that conserve ecologically and recreationally important places, or inspire and enable people to be active outside.

Some highlights:

- \$74,000 to The Nature Conservancy of Canada (Atlantic) to protect 860 hectares of forest and river habitat with eight salmon pools in the Miramichi River Watershed
- \$15,000 to the Cowichan Trail Stewardship Society to finish construction of the 17km mixed-use trail on Maple Mountain, the first sanctioned trail in the Cowichan Valley on Vancouver Island
- \$15,000 to the Ecology Action Centre to advocate for swimmable, drinkable, fishable water in southwest Nova Scotia by advocating for reduced blue-green algae through province-wide citizen engagement and enforcement of environmental regulations
- \$35,000 to Nature Canada to connect urban Canadians to nature through NatureHood programs in Montreal, Regina and on the Saanich Peninsula in collaboration with local partners
- \$6,730 to the Kids in the Woods Initiative for after-school programs in Toronto's Rouge Park, which will help reconnect urban children and youth to nature through adventure-play and mentoring in wild outdoor spaces

## MEC Homewaters

MEC Homewaters is a multi-year project dedicated to preserving Canada's fresh water from coast to coast. From June to October 2014, we promoted the work of eight provincial freshwater NGOs across Canada. Each of the NGOs works "on the water" on projects that are vitally important. MEC encouraged members to connect with their local organization, which then reaches out to everyone that signed up to let them know how they can make a difference.

## Our Living Waters

In addition to the Homewaters project, deep investment with Canada's water community is also needed to truly move the dial on freshwater conservation.

That's why MEC convened NGOs and funders around an initiative called Our Living Waters. This initiative recognizes that no single organization, however well managed or funded, can single-handedly address complex social and environmental issues. Large-scale, systemic change requires engagement, alignment, and coordination of many diverse organizations and efforts. After a Living Waters rally in Ottawa last fall, freshwater advocates called on governments to step up monitoring and reporting, and provide a legal and policy framework that sets out standards of accountability and transparency.

## MEC Big Wild Challenge

Once again, in partnership with the Canadian Parks and Wilderness Society (CPAWS), we ran the MEC Big Wild Challenge. The Big Wild Challenge is a peer-to-peer fundraising event with two event types to choose from: organized events in key cities, and DIY events (where participants can design their own self-directed challenge). All funds go to wilderness conservation by supporting CPAWS.

We also drew attention to the Big Wild Challenge by supporting Jim Willet, an MEC Ambassador, staff member, and cancer survivor, on his own Big Wild Challenge. Jim completed the 885km Bruce Trail in a record time of 10 days, 13 hours and 57 minutes (that's an average of 80km per day!). Through this effort, Jim raised \$2371 for wilderness conservation.



**\$3.26M**

### TO COMMUNITY INITIATIVES

As part of our 1% for the Planet commitment.

2014: ✓  
2015 goal: 1% of sales (previous year)

**96,561**

### PARTICIPANTS

At MEC events or at programs funded by MEC.

2014: Set a baseline  
2015 goal: Increase



## OUR AMBASSADOR TEAM

Our Ambassador Program (formerly our Envoy Program) consists of a series of aficionados of the outdoor sports we promote. They pioneer and innovate, working to establish new benchmarks in their chosen fields.

They're also our field test team, and make sure our products are thoroughly tested—helping us develop, improve, and refine. They share their passions and experience to inspire all of us to get outside and live life to the fullest.

In 2014, some highlights from the team included Jen Olson representing Canada at Sochi in the ice climbing cultural event, adventurer Bruce Kirkby and his family making a 22,000km, 100-day journey to Ladakh, India (where they spent three months living among monks in a remote Buddhist monastery), and chef Ned Bell biking across Canada to drive awareness of sustainable seafood.

Read more about the team at [mec.ca/ambassadors](http://mec.ca/ambassadors).

## EMPLOYEE EXPERIENCE AND ENGAGEMENT

By the end of 2014, we had more than 1900 employees. Fewer than half were full time, similar to past years. Our staff work at Head Office, our Service Centre, our Distribution Centre, and in our stores across Canada.

Our goal is to be an outstanding destination employer with highly effective, knowledgeable and engaged employees. In 2014, we were once again recognized as being one of Canada's Top 100 Employers, one of BC's Top Employers, and one of the Greenest Employers in Canada. We're proud of those achievements and we'll keep exploring new ways to make MEC an outstanding place to work.

In HR, 2014 was a busy year, largely due to the fact that the organization has seen a lot of change in recent years. To stay competitive, we need people with more expertise, and we're taking steps to actively recruit talented employees. However, it's increasingly challenging to attract, recruit, and keep talent, particularly on the IT side.

Another ongoing challenge has been around diversity of staff. Our goal is to attract an even wider member base that's representative of the entire country. To do that, we know our staff need to be just as diverse. In 2015, we'll be working on a strategy to reach out to wider range of ethnic communities and actively recruit staff.

While our hourly wage rates are higher than the national retail average, we continue to work to provide staff with a total compensation package that is both fair and progressive. In 2014, we opened up tuition reimbursement to our casual staff, and provided \$250 each to take education and training courses of their choice.

On the health and safety front, as of the end of December 2014, our Distribution Centre had gone 307 days without an accident, which is an amazing safety record.

In 2015, we'll implement a new HR management and payroll system that will help us have the right foundation in place to handle current and future growth, functionality and strategy.

### People who Bring It

In 2014, we launched Bring It, an internal branding initiative. Our overall objective is for every employee to be an advocate for the MEC brand: to feel engaged, contribute to the organization, and recognize their value to MEC.

As part of the Bring It launch, we asked staff what they're going to do to bring their passion and enthusiasm to make MEC exceptional. Senior management and Board members were the first to step up and describe how they'd Bring It, and all staff were invited to share how they're going to Bring It, using photos, videos and posters.

In 2015, we'll continue our efforts and integrate Bring It into our recruitment strategy, onboarding and performance management.

# MEC'S ECONOMIC CONTRIBUTION

As a co-op, we try to achieve a balance between having a healthy organization and making sure our member offering is as compelling as possible. We're not profit focused. However, we operate in the same market environment as other businesses and must have a robust balance sheet and sufficient annual surplus to enable us to invest in the future. We're also in a competitive environment and are aware that nothing stands still: we need to compete as hard as anyone else.

Our success depends on strong 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 information technology, employment and training of engaged store staff, and integrity and trust with our members and stakeholders. We prioritize our investments and expenses to achieve this.

In 2014, our gross sales were \$336 million, a 5% increase over 2013. This is a significant accomplishment in a year when many other Canadian retailers in our industry saw stagnant or declining sales. We mainly attribute this to increased efforts with our omni-channel offerings, our evolving assortments, and focus on member service.

At the end of 2014, we owned \$274 million of assets (cash, inventory, property, accounts receivable and equipment). We owed \$90 million (payables, gift cards and lease obligations). Our members had invested \$184 million in equity (shares). Our operating expenses were 27% of sales, on plan with our budget, which shows that we continue to run an efficient operation. We had a surplus of \$8 million, or 2% of sales.

Because of an unseasonably late winter, some areas of our assortment, such as alpine touring, did not do as well as expected. We're also seeing shifting buying patterns from consumers, which present a challenge for MEC. Many consumers are leaving shopping for Boxing Day or expecting big sales (such as Black Friday), and may expect similar sales from MEC. Though we offer clearance prices for discontinued products, we don't have sales.

## Carbon Pricing

Since 2010, through rigorous tracking and reporting, we have put an internal price on carbon to integrate carbon costs (of product transport, facilities and travel) into our business decision-making.

Together, these factors inform MEC's position on energy development in Canada. We believe that Canada must design and support a forward-looking national energy strategy that provides a predictable path to transition to a low-carbon energy future.

In 2014, our carbon footprint from product transport, business flights, facilities energy consumption, and waste increased by 3% to 4948 tonnes of carbon dioxide equivalents (tCO<sub>2</sub>e) from 4803tCO<sub>2</sub>e in 2013. We didn't measure our footprint from employee commuting in 2014.

## Economic Impacts

MEC's operations in Canada make a significant contribution to the Canadian economy. In 2014, we estimate that we created approximately \$1.02 billion<sup>1</sup> in direct spin-off economic activity through our operations, payroll, member spending on outdoor recreation, and community contributions.

## Membership and Patronage Returns

As a member-owned organization, we exist to provide value to our members. One of the ways we do that is through patronage returns. Because MEC does not exist to produce profits, our gross earnings at the end of the year (surplus) are returned to members.

Each year, the Board declares a patronage return – a total portion of earnings to be returned to the membership. The total is divided between individual members based on how much money each member spent at the Co-op over that year. Each member's portion of the return is called a patronage dividend and is allocated to the member as a quantity of shares (each worth \$5). Every member has an account that shows the value of patronage shares held in their name.

The Board determines the financing needs of the Co-op. In the years when the Co-op's financial affairs are sound and the organization is adequately funded, the Co-op buys back patronage shares from its members' patronage accounts. We return the money to members in the form of a share redemption.

In 2013, the Board authorized a new approach to restructure share redemptions to ensure they're more consistent and frequent, and benefit even more members. The previous approach to share redemptions typically only benefited members who had accumulated high share balances over the course of several years. The new approach ensures that more members – including many newer members who shop at MEC on a regular basis – will receive a share redemption. Instead of issuing share redemptions by cheque, members now receive gift cards.

<sup>1</sup> "Economic Input-Output Life Cycle Assessment (Canada 2002 [105 sectors] Producer model)," Carnegie Mellon University Green Design Institute, accessed March 20, 2015, <http://www.eiolca.net>.



In 2014, we issued \$4.5 million in share redemptions to over 165,000 members through gift cards with values of \$15, \$25 and \$50. That's four times more members and 87% more than the last redemption in 2011. However, as of December 31, 2014, just short of 54% of the gift cards had been redeemed. (Note: gift cards can be redeemed now or at any point in the future.) The higher value gift cards had the highest redemption rates.

For the 2015 share redemption, we'll be redeeming even more member shares. Based on what we learned in 2014, we'll also introduce two higher value gift card denominations.

Since 1971, MEC has completed 13 share redemptions totaling more than \$22.5 million.

## LOOKING AHEAD

We've accomplished a lot in the past few years, and we remain confident that we're on the right path to meet members' needs today and in the future, and to ensure MEC remains a viable, valuable Canadian organization.

Many things have come together in recent years, but we're not standing still. We must remain agile and responsive to the changing trends and needs of our members, while being mindful of the larger global landscape. We will continue to look at the best areas to invest in, and to grow and manage complexity in a scalable, efficient way. We will also continue to improve the MEC brand, strengthen our infrastructure, and push forward on our social and environmental initiatives. And, as always, we will continue to seek out more ways to engage and inspire people—particularly the next generation—to stay active and get outdoors.

We welcome your feedback on how we're doing.

Let us know what you think: [info@mec.ca](mailto:info@mec.ca)