

Letter from our Chairman and Chief Executive Officer



The Original Storage and Organization Store®

To our prospective shareholders,

As we celebrate our 35th anniversary this year, I am thrilled, honored and proud to be writing this letter to you.

Since 1978, The Container Store has been working toward creating a retail store experience that is unlike any other—a differentiated shopping experience offering customers innovative, time and space-saving solutions coupled with astonishing customer service from happy, well-trained, well-paid salespeople. We hope you and yours have had the opportunity to enjoy it. And if you haven't, I'd love nothing more than for you to take a trip to one of our stores around the country to see what we're talking about. A store that can change your life? Well, yes, we hope so.

Our yummy culture—What we stand for

How to define The Container Store culture? I would have to say that first and foremost we're an employee-first, yummy company. "What does it mean to be yummy?" might be your next question. Well, it's the opposite of yucky. We know our employee-first mantra defies conventional business wisdom, most famously expressed by the late American economist Milton Friedman. Milton said the only reason a corporation exists is to maximize the return of the shareholder. Well, with all due respect to Milton, at The Container Store we have found that if you take better care of the employees than anybody else, they really will take better care of the customers than anybody else. It's actually about creating this one-of-a-kind experience, where we operate our business with a focus on all of our stakeholders—but with our employees first.

This results in a culture where employees get out of bed and actually look forward to coming to work—to work alongside other great people. It's a purpose to improve our customers' lives through the gracious gift of organization, to help our vendors' businesses become all they hope and dream they can be, and to make our communities a better place to live. And in doing this, all by staying true to our seven Foundation Principles, which I'll tell you even more about later, we know that the lives of everyone associated with our business will be enriched, filled with opportunity and EVERYONE—all of our stakeholders—can thrive.

People often say (and I mean often), "How does The Container Store do it? How have you always been considered a great place to work (and we're talking retail), and how can you compete against the mass merchants and all of the knockoffs you've seen over the years?" My response always points to the culture and our Foundation Principles. We trust that the most sophisticated investors understand that our culture is what drives the value of our business—yes, the culture. In all that we do every single day we keep a laser-like focus on developing and nurturing our culture.

It means that when we asked our employees to describe in a word The Container Store's culture, they shared things like love, passion, family, sweet, security, support, mindful, magical and matchless. Love and sweet and mindful—in business? Now that warms my heart and is something we're incredibly proud and passionate about.

One of our greatest hopes is that the practice of simultaneously taking care of everyone connected to a business, operating from a purpose beyond profits and leading with consciousness—what we along with other companies, thought leaders and academics call Conscious Capitalism®—becomes the preferred and most accepted way of doing business. It will prove that the economic imperatives of corporate success aren't incompatible with doing the right things. It's not a zero-sum game. No one has to lose for the other person to win. You can make decisions based on love and succeed.

Our foundation principles

In order to achieve all of this, our business is structured around some very basic and fundamental values and business philosophies about treating employees, customers and vendors with respect and dignity—we call them our Foundation Principles™.

They were formalized in 1988, after we opened our Houston store. That store made us take a look at our business a little harder. From the day we opened the doors, the store did more business than we ever anticipated, which became quite overwhelming to our Houston store employees.

So I referred to a file I had started many years ago called my “philosophy epistle file” where I'd put various anecdotes, musings and philosophical phrases that I admired beginning in high school, through college and up to this time in the business. I chose many examples to communicate the message that no matter how big the company became, its guiding principles and values would stay the same and over the years these were condensed into our Foundation Principles™.

By understanding and supporting these principles and philosophical guidelines, everyone can all respond in unison to similar circumstances. In other words, they act as a unit, all working in the same direction toward the same goal. Retail is far, far too situational to attempt to achieve a concerted effort through inflexible rules and policies.

So, instead of using the typical phone-book-sized retail procedural manual to guide our decision making, all of us at The Container Store use our Foundation Principles™ to keep everyone on track, focused and fulfilled as employees. With this combination of values-driven business philosophies and a one-of-a-kind product selection, The Container Store's goal is to become the best retail store in America.

1 1 GREAT PERSON = 3 GOOD PEOPLE™

"1 Equals 3" is our hiring philosophy. One great person equals three good people in terms of business productivity. We have to be selective when interviewing potential employees because of the brand promise we've made to our customers to provide exceptional customer service.

2 COMMUNICATION IS LEADERSHIP™

We believe that Communication IS Leadership—they are one and the same. The Container Store knows the importance of executing every day, consistent, reliable, predictable, effective, thoughtful, compassionate and yes, even courteous communication. It's hard, but we feel passionate that it is critical in developing and growing our business successfully.

3 FILL THE OTHER GUY'S BASKET TO THE BRIM. MAKING MONEY THEN BECOMES AN EASY PROPOSITION.™

This statement has become a Golden Rule of our company—it's our business philosophy. The Container Store has been successful in creatively crafting mutually beneficial relationships with our vendors by doing everything possible to truly "fill their baskets to the brim." We know that in return, they will support us and assist in our success as well.

4 THE BEST SELECTION, SERVICE, & PRICE™

Conventional wisdom says that price is mutually exclusive of service and selection. It's hard for most retailers to offer competitive pricing and provide exceptional service. A few great retailers have achieved a combination of the best selection and the best service. To add competitive pricing to that equation is generally unheard of, but The Container Store works hard to achieve all three simultaneously with this philosophy.

5 INTUITION DOES NOT COME TO AN UNPREPARED MIND. YOU NEED TO TRAIN BEFORE IT HAPPENS.™

This is our training philosophy and demonstrates how committed we are in arming our employees with the knowledge to provide the best possible service to our customers. We want our employees to use their intuition, which I heard someone once say is the sum total of your life experiences, so why would you want them to leave that at home when they come to work? In order to successfully anticipate the needs of our customers, we encourage our employees to use their intuition coupled with the enormous training they receive on our products. We are the experts and must ensure our customers feel more than taken care of by us.

6 MAN IN THE DESERT SELLING™

This is our selling philosophy and we use it to illustrate how we astonish our customers by exceeding their expectations. When a customer comes to our store looking for shoe storage, for example, we equate her to a “Man in a Desert,” in desperate need of a complete solution (not just a drink of water). We start asking questions about what her needs are. “How many shoes do you have?” “If shoes are a big problem for you, how does the rest of the closet function?” By anticipating her needs, we know that she needs an organization plan—a complete solution—for her entire closet.

7 AIR OF EXCITEMENT™

Three steps in the door and you can tell whether or not a retail store has it. And we know that The Container Store has it! “Air of Excitement” is our employees’ smiling faces and genuine concern for customers’ needs. It’s the bright, visual, innovative and conversation-provoking products we sell. It’s our clean, well-organized shelves. It’s music that is pleasant and speaks to our customers.

The customer dance

It’s all of these wonderful Foundation Principles that, working together, create that differentiated shopping experience. That customer experience is not just about any one thing. It’s a very complex and powerful mix of so many things. But the ultimate reward, the validation that the experience was successful is what we call getting the customer dance. It’s everything about the customer experience that happens in the store and continues on after that customer gets home. Her heart rate goes up, up, up with every interaction with the brand. It’s about what occurs when she takes the product home and actually lives with it. We want her to do a little dance every time she opens that closet door in the morning because it’s so beautifully organized. So perfect for her. Frankly, she feels an emotional connection to her closet. The product—the solution—it transcends value for her.

And the dance is really happening when she has her friends, sister-in-law and neighbor over to see her closet and they want to feel that way every morning so they make a trip to The Container Store to find out how they can experience that feeling. I’ve had customers tell me over and over again how our stores are a peaceful, organized oasis after a really stressful day or, even better, after a trip to our store they say It was more fun than Disneyland.

Our customers don’t just like The Container Store—they say they love us. It’s the ultimate achievement in building a brand when the people associated with it don’t just enjoy the brand, they somehow feel a part of it.

Continuing to lead with heart and soul

I'm excited about the work we have ahead of us—whether it's in the stores that are yet to be built or in the products of the future that will continue to help our customers save space and time. We'll continue to create boundless opportunities for our employees and they will be enriched by working around other inspiring, fantastic colleagues. We will continue to work closely with our vendors, building our businesses together—and we will have customers continuing to dance in their closets with delight. All of our stakeholders will enjoy The Container Store's purpose in action.

My favorite movie is *It's a Wonderful Life*. I know it's kind of corny, but the whole movie is about showing one guy, George Bailey, the power of his wake. At The Container Store, we talk a lot about WAKE—like a boat's wake. I really believe that being a CONSCIOUS business means that everyone is aware of their wake. And I think that all of our wakes are much, much bigger than we can ever, ever imagine. We have built a culture that champions a collective focus on our wake, team, mutual support and respect, grace of authority and servant leadership and leadership based on love rather than fear. We believe The Container Store's magic will continue to flourish in our next step as a public company.

We've come a long way over the last 35 years—from my dad's friends scratching their heads about us opening a store that sells “empty boxes” to originating and now leading the storage and organization category of retailing to being at or near the top of *FORTUNE Magazine's* “100 Best Companies To Work For” the last 14 years in a row (we were #1 twice). We've been one of Oprah's “Favorite Things” during her farewell season and most recently achieved positive quarterly comps for 13 consecutive fiscal quarters as of fiscal August. But our heart and soul, our devotion to operating a conscious business has never wavered. It's what makes The Container Store matchless—and something I'm excited to say continues to strengthen with every step we take in our extraordinary journey.

We will continue to innovate, trail blaze, astonish and thrill. And we will continue to work hard and create opportunity for everyone associated with our business. But, if the RPM needle ever gets in the red and our precious, yummy culture is in need of a bit of a hug, we'll stop and give it the love it deserves and needs. For love is what The Container Store's past, present and future is built on.

I sure wouldn't want to miss our future—would you? We hope you'll join us!



Kip Tindell
Chairman and Chief Executive Officer

This communication is not an offer to sell securities.