Q3 Fiscal 2018 Earnings Commentary

The financial measures discussed below include both GAAP and adjusted non-GAAP financial measures. During the third quarter of fiscal 2018, the Company adjusted the provisional amount recorded for the mandatory one-time transition tax under the U.S. Tax Cuts and Jobs Act, resulting in the recognition of an additional tax expense of $5.2 million. In connection with the restructuring of its ivivva operations, the Company recognized pre-tax costs totaling $22.2 million in the third quarter of fiscal 2017 and a related tax recovery of $5.8 million. The adjusted financial measures for the third quarters of fiscal 2018 and 2017 exclude these adjustments.

Please see the section captioned "Reconciliation of Non-GAAP Financial Measures" included in the accompanying financial tables, which includes more detail on the GAAP financial measure that is most directly comparable to each non-GAAP financial measure, and the related reconciliations between these financial measures.

This earnings commentary should be read in conjunction with the Company's quarterly report on Form 10-Q filed with the Securities and Exchange Commission ("SEC") on, or about, December 6, 2018 and its annual report on Form 10-K filed with the SEC on March 27, 2018. These reports are available at www.sec.gov.

The below narrative compares the third quarter of fiscal 2018 to the third quarter of fiscal 2017, unless otherwise noted.

Sales

- **Total net revenue** increased 21% to $747.7 million, with the increase primarily resulting from:
  - the opening of 38 net new lululemon branded company-operated stores since Q3 2017. We opened 14 net new lululemon branded company-operated stores in the U.S., 11 in Asia, seven in Europe, four in Canada, and two in Australia/New Zealand;
  - a total comparable sales increase of 18% on a constant dollar basis, comprised of a comparable store sales increase of 7% and an e-commerce increase of 46%; and
  - an increase of $18.7 million in other revenue.

  The increase in net revenue was partially offset by a decrease of $9.3 million, or 1.0%, due to foreign exchange, and the closure of 48 of our ivivva branded company-operated stores as part of the restructuring of our ivivva operations.

- **Company-operated store revenue** totaled $476.9 million, or 63.8% of total revenue, compared to $425.1 million, or 68.7% of total revenue, in Q3 2017.

- **E-commerce revenue** totaled $189.4 million, or 25.3% of total revenue, compared to $131.2 million, or 21.2% of total revenue, in Q3 2017.

- **Other revenue**, which includes outlets, temporary locations including seasonal stores, sales to wholesale accounts, showrooms, warehouse sales, and license and supply arrangements, totaled $81.4 million, or 10.9% of total net revenue, compared to $62.7 million, or 10.1% of total net revenue, in Q3 2017.

Store Count

- **New stores**: We opened 11 net new company-operated stores in Q3 2018 including seven in the U.S., two in Europe, and one in each of Asia and Canada.

- **Total company-operated stores**: At the end of Q3 2018, we had 426 total company-operated stores compared to 388 at the end of Q3 2017. At the end of Q3 2018, of the 426 company-operated stores, 325 were in our comparable store base, including 223 stores in the U.S., 44 stores in Canada, 32 stores in Australia/New Zealand, 15 stores in Asia, and 11 stores in Europe.

- **Showrooms**: At the end of Q3 2018, we had a total of 14 showrooms compared to 24 at the end of Q3 2017. Of the 14 showrooms, we had seven in Europe, four in Asia, and three in the U.S.

Gross Profit

- **Gross profit** was $406.8 million, or 54.4% of net revenue, compared to $322.0 million, or 52.0% of net revenue, in Q3 2017. Adjusted gross profit was $323.1 million, or 52.2% of net revenue, in Q3 2017. Gross profit increased 26% compared to Q3 2017, and increased 26% compared to adjusted gross profit in Q3 2017.

  The increase in gross margin was primarily the result of:

  - an increase in product margin of 280 basis points, which was primarily due to lower product costs, a favorable mix of higher margin product, lower markdowns, and lower inventory provision expense; and
  - the costs incurred in Q3 2017 in connection with the restructuring of our ivivva operations, which reduced gross margin in that quarter by 20 basis points.

  This was partially offset by an increase in costs as a percentage of revenue related to our distribution centers and certain other costs related to our product team of 30 basis points, and an unfavorable impact of foreign exchange rates of 30 basis points.

Selling, General and Administrative Expenses

- **SG&A expenses** were $270.9 million, or 36.2% of net revenue, compared to $215.4 million, or 34.8% of net revenue, in Q3 2017. The deleverage of 140 basis points in our SG&A rate was primarily the result of:

  - an increase in head office costs of 100 basis points, including increased information technology costs, brand and community costs, and professional fees;
  - an increase in operating channel costs of 10 basis points; and
  - the impact of foreign exchange, including both translation and revaluation, of 30 basis points.

Asset Impairment and Restructuring Costs

- In connection with the restructuring of its ivivva operations, the Company recognized pre-tax asset impairment and restructuring costs totaling $21.0 million in Q3 2017. The results for the Q3 2018 did not include any asset impairment and restructuring costs.

Operating Income

- **Operating income** was $135.9 million, or 18.2% of net revenue, compared to $85.6 million, or 13.8% of net revenue, in Q3 2017. Adjusted operating income was $107.8 million, or 17.4% of net revenue in Q3 2017.

Income Tax Expense

- **Income tax expense** was $43.5 million compared to $27.7 million in Q3 2017 and the effective tax rate was 31.6% compared to 32.0% in Q3 2017. The adjusted effective tax rate was 27.8% compared to 30.8% in Q3 2017.

Net Income

- **Net income** was $94.4 million, or $0.71 per diluted share, compared to $0.43 per diluted share in Q3 2017. Adjusted diluted earnings per share were $0.75 compared to $0.56 for Q3 2017.

Share Count

- Our diluted share count for the quarter was 133.1 million compared to 135.6 million in Q3 2017.
- During the third quarter of fiscal 2018, we repurchased 0.1 million shares at a cost of $8.1 million.

Capital Expenditures

- **Capital expenditures** were $72.7 million in Q3 2018 compared to $57.2 million in Q3 2017. The increase was primarily the result of an increase in corporate capital expenditures related to information technology and business systems, and an increase in capital expenditures related to our company-operated stores, primarily as a result of an increase in renovations and relocations of existing stores, in Q3 2018 compared to Q3 2017. The increase in capital expenditures was partially offset by a decrease in direct to consumer capital expenditures.

Balance Sheet Highlights

- Cash and cash equivalents were $703.6 million at the end of Q3 2018.
- Inventory increased 25% to $496.0 million at the end of Q3 2018 compared to Q3 2017.

Forward-Looking Statements and Non-GAAP Reconciliations

Forward-Looking Statements:

This supplemental disclosure includes estimates, projections, statements relating to our business plans, objectives, and expected operating results that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In many cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "outlook," "believes," "intends," "estimates," "predicts," "potential" or the negative of these terms or other comparable terminology. These forward-looking statements also include our guidance and outlook statements. These statements are based on management's current expectations but they involve a number of risks and uncertainties. Actual results and the timing of events could differ materially from those anticipated in the forward-looking statements as a result of risks and uncertainties, which include, without limitation: our ability to maintain the value and reputation of our brand; the acceptability of our products to our guests; our highly competitive market and increasing competition; our reliance on and limited control over third-party suppliers to provide fabrics for and to produce our products; an economic downturn or economic uncertainty in our key markets; increasing product costs and decreasing selling prices; our ability to anticipate consumer preferences and successfully develop and introduce new, innovative and updated products; our ability to accurately forecast guest demand for our products; our ability to safeguard against security breaches with respect to our information technology systems; any material disruption of our information systems; our ability to have technology-based systems function effectively and grow our e-commerce business globally; changes in consumer shopping preferences and shifts in distribution channels; the fluctuating costs of raw materials; our ability to expand internationally in light of our limited operating experience and limited brand recognition in new international markets; our ability to deliver our products to the market and to meet guest expectations if we have problems with our distribution system; imitation by our competitors; our ability to protect our intellectual property rights; changes in tax laws or unanticipated tax liabilities; our ability to manage our growth and the increased complexity of our business effectively; our ability to cancel store leases if an existing or new store is not profitable; our ability to source our merchandise profitably or at all if new trade restrictions are imposed or existing trade restrictions become more burdensome; increasing labor costs and other factors associated with the production of our products in South and South East Asia; the operations of many of our suppliers are subject to international and other risks; our ability to successfully open new store locations in a timely manner; our ability to comply with trade and other regulations; the service of our senior management; seasonality; fluctuations in foreign currency exchange rates; conflicting trademarks and the prevention of sale of certain products; our exposure to various types of litigation; actions of activist stockholders; anti-takeover provisions in our certificate of incorporation and bylaws; and other risks and uncertainties set out in filings made from time to time with the United States Securities and Exchange Commission and available at www.sec.gov, including, without limitation, our most recent reports on Form 10-K and Form 10-Q. You are urged to consider these factors carefully in evaluating the forward-looking statements contained herein and are cautioned not to place undue reliance on such forward-looking statements, which are qualified in their entirety by these cautionary statements. The forward-looking statements made herein speak only as of the date of this disclosure and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances, except as may be required by law.

Reconciliation of Non-GAAP Financial Measures

Unaudited; Expressed in thousands, except per share amounts

Constant dollar changes in net revenue, total comparable sales, comparable store sales, and direct to consumer net revenue

The below changes in net revenue, total comparable sales, comparable store sales, and direct to consumer net revenue show the net change for the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017.

	Net Revenue	Total Comparable Sales[1,2]	Comparable Store Sales[2]	Direct to Consumer Net Revenue
Increase	21%	17%	6%	44%
Adjustments due to foreign exchange rate changes	1	1	1	2
Increase in constant dollars	22%	18%	7%	46%

[1]Total comparable sales includes comparable store sales and direct to consumer sales.

[2]Comparable store sales reflects net revenue from company-operated stores that have been open for at least 12 months, or open for at least 12 months after being significantly expanded.

Adjusted financial measures

The following table reconciles adjusted financial measures with the most directly comparable measures calculated in accordance with GAAP. The adjustments relate to U.S. tax reform and the restructuring of our ivivva operations and its related tax effects. Please refer to Notes 7 and 8 to the unaudited interim consolidated financial statements included in Item 1 of Part I of our Report on Form 10-Q to be filed with the SEC on or about December 6, 2018 for further information on these adjustments.

	Quarter Ended October 28, 2018			Quarter Ended October 29, 2017		
	GAAP Results	U.S. Tax Reform	Adjusted Results (Non-GAAP)	GAAP Results	Restructuring of ivivva Operations Adjustments	Adjusted Results (Non-GAAP)
	(In thousands, except per share amounts)					
Gross profit	$ 406,777	$ —	$ 406,777	$ 321,962	$ 1,178	$ 323,140
Gross margin	54.4%	— %	54.4%	52.0%	0.2 %	52.2%
Income from operations	135,903	—	135,903	85,588	22,186	107,774
Operating margin	18.2%	— %	18.2%	13.8%	3.6 %	17.4%
Income before income tax expense	137,947	—	137,947	86,640	22,185	108,825
Income tax expense	43,534	(5,163)	38,371	27,696	5,813	33,509
Effective tax rate	31.6%	(3.8)%	27.8%	32.0%	(1.2)%	30.8%
Diluted earnings per share	$ 0.71	$ 0.04	$ 0.75	$ 0.43	$ 0.13	$ 0.56