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Q4 Fiscal 2018 Earnings Commentary

March 27, 2019

The summary below provides both GAAP and non-GAAP financial measures. The adjusted financial measures for fiscal 2018 and 2017 exclude the amounts recognized in connection with U.S. tax reform, taxes on the repatriation of foreign earnings, and the restructuring of our ivivva operations and its related tax effects. 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 annual report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on, or about, March 27, 2019. These reports are available at www.sec.gov.

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

Sales

- **Total net revenue** increased 25.7% to $1.2 billion, with the increase primarily resulting from:
  - the opening of 36 net new lululemon branded company-operated stores since Q4 2017 including 11 net new company-operated stores in both the United States and Asia, eight in Europe, four in Canada, and two in Australia and New Zealand;
  - a total comparable sales increase of 17% on a constant dollar basis, comprised of a comparable store sales increase of 7% and an ecommerce increase of 39%. Comparable sales excludes net revenue from the 53rd week of fiscal 2018;
  - net revenue from company-operated stores we opened or significantly expanded subsequent to Q4 2017, and are therefore not included in comparable store sales, increased net revenue by $48.3 million;
  - an increase in other revenue of $19.5 million.

  These increases in net revenue were partially offset by a decrease in net revenue of $14.7 million, or 1.6%, due to foreign exchange.

- **Company-operated store revenue** totaled $730.0 million, or 62.5% of total revenue, compared to $618.9 million, or 66.6% of total revenue, in Q4 2017.

- **Ecommerce revenue** totaled $344.2 million, or 29.5% of total revenue, compared to $236.1 million, or 25.4% of total revenue, in Q4 2017.

- **Other revenue**, which includes outlets, temporary locations including seasonal stores, sales to wholesale accounts, showrooms, license and supply arrangements, and warehouse sales totaled $93.2 million, or 8.0% of total net revenue, compared to $73.7 million, or 8.0% of total net revenue, in Q4 2017.

Store Count

- **New stores**: We opened 14 net new company-operated stores in Q4 2018 including six in Asia, three in each of the United States and Canada, and one in each of Europe and New Zealand.

- **Total company-operated stores**: At the end of Q4 2018, we had 440 total company-operated stores compared to 404 at the end of Q4 2017. Of the 440 company-operated stores, 361 were in our comparable store base, including 240 in the United States, 54 in Canada, 33 in Australia and New Zealand, 22 in Asia, and 12 in Europe.

- **Showrooms**: At the end of Q4 2018, we had a total of 13 showrooms compared to 23 at the end of Q4 2017. Of the 13 showrooms, we had six in Europe, four in Asia, and three in the United States.

Gross Profit

- **Gross profit** was $668.6 million, or 57.3% of net revenue, compared to $522.5 million, or 56.3% of net revenue, in Q4 2017. Adjusted gross profit was $522.4 million, or 56.2% of net revenue, in Q4 2017.

  The increase in adjusted gross margin was primarily the result of:

  - an increase in product margin of 170 basis points which was primarily due to lower product costs and a favorable mix of higher margin product, and lower markdowns; and
  - a decrease in occupancy and depreciation costs as a percentage of revenue of 20 basis points.

  This was partially offset by an increase in costs related to our product team and distribution centers of 50 basis points, and by unfavorable impact of foreign exchange rates of 30 basis points.

Selling, General and Administrative Expenses

- **SG&A expenses** were $337.2 million, or 28.9% of net revenue, compared to $264.2 million, or 28.4% of net revenue, in Q4 2017. The deleverage of 50 basis points in our SG&A rate was primarily the result of:

  - investments which included digital marketing and seasonal store openings to drive guest acquisition and build brand awareness; and
  - expanded testing for longer-term growth initiatives including loyalty and selfcare.

  This was partially offset by the impact of foreign exchange, including both translation and revaluation impact, of 70 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 $2.0 million in Q4 2017. The results for the Q4 2018 did not include any asset impairment and restructuring costs.

Operating Income

- **Operating income** was $331.4 million, or 28.4% of net revenue, compared to $256.3 million, or 27.6% of net revenue, in Q4 2017. Adjusted operating income was $258.1 million, or 27.8% of net revenue, in Q4 2017.

Income Tax Expense

- **Income tax expense** was $115.8 million compared to $137.7 million in Q4 2017 and the effective tax rate was 34.6% compared to 53.5% in Q4 2017.

  In Q4 2017 the company recognized a provisional income tax expense of $59.3 million related to the U.S. Tax Cuts and Jobs Act ("U.S. Tax Reform") and recognized an income tax recovery of $0.9 million on the costs incurred in correction with the restructuring of the ivivva operations.

  In Q4 2018 we completed the accounting for U.S. Tax Reform and recognized an additional tax expense of $2.3 million related to the mandatory one-time transition tax. In addition, in Q4 2018, we repatriated $778.9 million into the U.S. and recognized an associated tax expense of $23.7 million.

  The adjusted effective tax rate for Q4 2018 was 26.9% compared to 30.6% in Q4 2017. The decrease in the adjusted effective tax rate was primarily due to the lower US federal income tax rate that was introduced as part of US Tax Reform and due to some legislation changes related to global intangible low-taxed income ("GILTI") taxes, which were introduced during the fourth quarter.

Net Income

- **Net income** was $218.5 million, or $1.65 per diluted share, compared to $0.88 per diluted share in Q4 2017. Net income in Q4 2018 included $2.3 million, or $0.02 per share, in income tax expense related to U.S. Tax Reform and $23.7 million, or $0.18 per share, related to tax on the repatriation of foreign earnings. Excluding these charges, adjusted earnings per share were $1.85 compared to an adjusted earnings per share of $1.33 in Q4 2017.

Share Count

- Our diluted share count for the quarter was 132.5 million compared to 135.7 million in Q4 2017.
- During the fourth quarter of fiscal 2018, we repurchased 1.5 million shares at a cost of $184.0 million.

Capital Expenditures

- **Capital expenditures** were $69.1 million in Q4 2018 compared to $50.7 million in Q4 2017. The increase was primarily the result of an increase in capital expenditures related to our store renovation and relocation program, new store openings, technology investments, and other general corporate infrastructure projects, in Q4 2018 compared to Q4 2017.

Balance Sheet Highlights

- Cash and cash equivalents were $881.3 million at the end of Q4 2018.
- Inventory increased 23% to $404.8 million at the end of Q4 2018 compared to Q4 2017.

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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 source our merchandise profitably or at all if new trade restrictions are imposed or existing trade restrictions become more burdensome; 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; 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 fourth quarter of fiscal 2018 compared to the fourth quarter of fiscal 2017.

	Change in Net Revenue	Change in Total Comparable Sales[1,2,3]	Change in Comparable Store Sales[2,3]	Change in Direct to Consumer Net Revenue[3]
Increase	26%	16%	6%	37%
Adjustments due to foreign exchange rate changes	1	1	1	2
Increase in constant dollars	27%	17%	7%	39%

[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 full fiscal months, or open for at least 12 full fiscal months after being significantly expanded.

[3]Net revenue from the 53rd week of fiscal 2018 is excluded from the calculation.

Adjusted financial measures

The following tables reconcile adjusted financial measures with the most directly comparable measures calculated in accordance with GAAP. The adjustments relate to the amounts recognized in connection with U.S. tax reform, taxes on repatriation of foreign earnings, and the restructuring of our ivivva operations and its related tax effects. Please refer to Notes 13 and 14 to the audited consolidated financial statements included in Item 8 of Part II of our Report on Form 10-K to be filed with the SEC on, or about, March 27, 2019 for further information on these adjustments.

	Quarter Ended February 3, 2019			
		Adjustments		
	GAAP Results	Tax on Repatriation of Foreign Earnings	U.S. Tax Reform	Adjusted Results (Non-GAAP)
	(In thousands, except per share amounts)			
Gross profit	$ 668,583	$ —	$ —	$ 668,583
Gross margin	57.3%	— %	— %	57.3%
Income from operations	331,420	—	—	331,420
Operating margin	28.4%	— %	— %	28.4%
Income before income tax expense	334,281	—	—	334,281
Income tax expense	115,816	(23,714)	(2,301)	89,801
Effective tax rate	34.6%	(7.0)%	(0.7)%	26.9%
Diluted earnings per share	$ 1.65	$ 0.18	$ 0.02	$ 1.85

	Quarter Ended January 28, 2018			
		Adjustments		
	GAAP Results	Restructuring of ivivva Operations	U.S. Tax Reform	Adjusted Results (Non-GAAP)
	(In thousands, except per share amounts)			
Gross profit	$ 522,511	$ (143)	$ —	$ 522,368
Gross margin	56.3%	(0.1)%	— %	56.2%
Income from operations	256,278	1,858	—	258,136
Operating margin	27.6%	0.2 %	— %	27.8%
Income before income tax expense	257,504	1,858	—	259,362
Income tax expense	137,743	855	(59,294)	79,304
Effective tax rate	53.5%	0.1 %	(23.0)%	30.6%
Diluted earnings per share	$ 0.88	$ 0.01	$ 0.44	$ 1.33