Q2 Fiscal 2017 Earnings Commentary

August 31, 2017

The financial measures discussed below include both GAAP and adjusted non-GAAP financial measures. In connection with the restructuring of its ivivva operations, the Company recognized pre-tax costs totaling $5.4 million in the second quarter of fiscal 2017. The adjusted financial measures exclude the impact of the ivivva restructuring and the related tax effects, and also exclude certain discrete tax items which were recognized during the second quarter of fiscal 2016.

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, August 31, 2017 and its annual report on Form 10-K filed with the SEC on March 29, 2017. These reports are available at www.sec.gov.

The below narrative compares the second quarter of fiscal 2017 to the second quarter of fiscal 2016, unless otherwise noted.

Sales

- **Total net revenue** rose 12.9% to $581.1 million, with the increase primarily resulting from:
  - An increase in square footage of 11% driven by the opening of 42 net new company-operated stores since Q2 2016. We opened 24 net new stores in the United States, nine in Asia, four in Canada, four in Europe, and one in New Zealand;
  - A total comparable sales increase of 7%, on a constant dollar basis. This is comprised of a comparable store sales increase of 2% and an ecommerce increase of 30%. During the quarter we held an online warehouse sale. Excluding the impact of the sale, the ecommerce revenues increased 16% on a constant dollar basis; and
  - An increase in other revenue.

  These increases were partially offset by the impact of foreign exchange which decreased revenues by $2.4 million or 0.4%.
- **Company-operated store revenue** totaled $413.9 million or 71.2% of total revenue, compared to $381.4 or 74.1% in Q2 2016.
- **Ecommerce revenue** totaled $113 million or 19.5% of total revenue compared to $87.4 million or 17% of total revenue in Q2 2016.
- **Other Revenue**, which includes outlets, showrooms, strategic sales, pop-up stores and physical warehouse sales, totaled $54.1 million compared to $45.7 million in Q2 2016.

Store Count

- **New Stores**: We opened 10 net new company operated stores in Q2 2017
  - Five in the United States, two in Asia, two in Canada, and one in New Zealand
- **Total Stores**: At the end of Q2 2017, we had 421 total stores compared to 379 at the end of Q2 2016.

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- Of the 421 stores, 358 were in our comparable store base
- 58 of those were in Canada, 260 in the United States, 27 in Australia/New Zealand, seven in Europe, and six in Asia.

- **Showrooms**: At the end of Q2 2017, we also had a total of 43 showrooms in operation
    - 28 in North America and 15 in our international markets
- **ivivva**: On August 20, 2017 as part of the planned restructuring of our ivivva operations, we closed 47 of our 55 ivivva branded company-operated stores. Of the eight remaining ivivva branded stores, seven are expected to remain in operation and one is expected to convert to a lululemon branded store. All of our other ivivva branded locations such as showrooms and other temporary locations have been closed.

Gross profit

- **Gross profit** was $297.4 million, or 51.2% of net revenue compared to $254.2 million, or 49.4% of net revenue in Q2 2016.
    - Gross margin was adversely impacted by 40 basis points due to costs related to the ivivva restructuring. Excluding these charges, adjusted gross margin increased 220 basis points compared Q2 2016,
    - The increase was primarily due to a 260 basis point increase in overall product margin, driven by favorability in product mix, and lower product costs, partially offset by higher markdowns related to our online warehouse sale.
    - Offsetting the product margin improvement was 20 basis points related to foreign exchange and 20 basis points of deleverage in occupancy, depreciation and product and supply chain costs.

Selling, general and administrative expenses

- **SG&A** expenses were $225.5 million, or 38.8% of net revenue compared with $180.2 million, or 35% of net revenue in Q2 2016. Of the 380 basis points in deleverage in our SG&A rate,
    - approximately one third of the related to the planned costs associated with the improvements to our e-commerce platform;
    - one third was due to costs associated with our global brand campaign, store operating costs and digital marketing expenses; and
    - the remainder related to foreign exchange losses, as we anniversaried prior year gains.

Asset impairment and restructuring costs

- There was $3.2 million in severance, lease termination, and other restructuring costs related to the ivivva restructuring that was recognized in the second quarter.

Operating income

- **Operating Income** for the quarter was $68.7 million, or 11.8% of net revenue compared to $74 million or 14.4% of net revenue in Q2 2016.
    - Excluding the pre-tax charges of $5.4 million related to the ivivva restructuring, adjusted operating income for the quarter increased to $74.1 or 12.8% of net revenue, compared to 14.4% in Q2 2016.

- Operating margin this quarter includes approximately 120 basis points of costs associated with enhancements to our e-commerce platform.

Income tax expense

- **Income tax expense** was $20.8 million or 29.9% of pre-tax earnings compared to 28.1% in Q2 2016. The adjusted effective tax rate for Q2 2017 was 29.6% compared to 30.5% in Q2 2016.

Net income

- **Net income** was $48.7 million, or $0.36 per diluted share, compared to $0.39 per diluted share in Q2 2016.
  - Net income in Q2 2017 included $4 million, or $0.03 per share, in ivivva related restructuring charges. Excluding these charges, adjusted EPS for the quarter was $0.39 compared to an adjusted EPS of $0.38 in Q2 2016.

Share count

- Our diluted share count for the quarter was 136.3 million compared to 137.2 million in Q2 2016. This takes into account the weighted impact of the 1.5 million shares which we repurchased during the quarter.
- During fiscal 2017, we have repurchased a total of $90.8 million shares, and as at the end of Q2 2017 there was $8.5 million remaining under the current $100 million authorized share repurchase program.

Capital expenditures

- **Capital expenditures** were $30 million in Q2 2017 compared to $44.6 million in Q2 2016. The decrease was due to lower corporate head office capital spend vs. last year.

Balance sheet highlights

- We ended the quarter with $721.2 million in cash and cash equivalents
- Inventory at the end of the second quarter was $316.4 million or 14% higher than at the end of Q2 2016.

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Forward-Looking Statements and Non-GAAP Reconciliations

Forward-Looking Statements:

This supplemental disclosure contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that involve risks, uncertainties and assumptions, such as statements regarding our future financial condition or results of operations and our prospects and strategies for future growth. 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 customer 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; 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 customer expectations if we have problems with our distribution system; imitation by our competitors; higher than anticipated costs and our ability to realize the benefits associated with the restructuring of our ivivva business; our ability to protect our intellectual property rights; changes in tax laws or unanticipated tax liabilities, capital or financing needs in the United States, or our intentions with respect to the reinvestment of foreign earnings; 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; our ability to successfully open new store locations in a timely manner; our ability to source our merchandise profitably or at all; our ability to comply with trade and other regulations; the continued service of our senior management; seasonality; fluctuations in foreign currency exchange rates; the operations of many of our suppliers are subject to international and other risks; our exposure to various types of litigation; actions of activist stockholders; 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 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, direct to consumer net revenue, and direct to consumer net revenue excluding the online ware house sale

The below changes in net revenue, total comparable sales, comparable store sales, direct to consumer net revenue, and direct to consumer net revenue excluding the online warehouse sale show the net change for the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016.

	Net Revenue	Total Comparable Sales[1,2]	Comparable Store Sales[2]	Direct to Consumer Net Revenue	Direct to Consumer Net Revenue Excluding the Online Warehouse Sale
Increase (decrease)	13 %	7 %	2 %	29 %	15 %
Adjustments due to foreign exchange rate changes	—	—	—	1	1
Increase (decrease) in constant dollars	13 %	7 %	2 %	30 %	16 %

[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.

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Adjusted financial measures

The following table reconciles adjusted financial measures with the most directly comparable measures calculated in accordance with GAAP*:*

	Quarter Ended July 30, 2017			Quarter Ended July 31, 2016		
	GAAP Results	**Adjustments**	**Adjusted Results (Non-GAAP)**	**GAAP Results**	**Adjustments**	**Adjusted Results (Non-GAAP)**
Gross profit profprofit[1]	$ 297,422	$ 2,244	$ 299,666	$ 254,161	$ —	$ 254,161
Gross margin marmargin[1]	51.2 %	0.4 %	51.6 %	49.4 %	— %	49.4 %
Income from operations[1,2]	68,712	5,430	74,142	73,959	—	73,959
Operating margin[1,2]	11.8 %	1.0 %	12.8 %	14.4 %	— %	14.4 %
Income before tax[2,3]	69,524	5,430	74,954	74,537	270	74,807
Income tax expense[3,4]	20,813	1,390	22,203	20,912	1,926	22,838
Effective tax rate[3,4]	29.9 %	(0.3)%	29.6 %	28.1 %	2.4 %	30.5 %
Diluted earnings per share[1,2,3,4]	$ 0.36	$ 0.03	$ 0.39	$ 0.39	$ (0.01)	$ 0.38

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[1] During the second quarter of fiscal 2017, we recognized costs in cost of goods sold totaling $2.2 million to reduce the carrying value of certain ivivva branded inventories to their estimated net realizable value, to record the expected net loss on certain committed inventory purchases, and to record accelerated depreciation.

[2] During the second quarter of fiscal 2017, we recognized costs in operating expenses totaling $3.2 million for severance, lease terminations and other costs related to the restructuring of our ivivva operations.

[3] The adjustments in the second quarter of fiscal 2016 relate to our transfer pricing arrangements, the associated repatriation of foreign earnings, and net interest costs. These adjustments were recorded in income tax expense and other income (expense), net.

[4] The adjustment to income tax expense for the second quarter of fiscal 2017 represents the tax effect of the ivivva related restructuring adjustments, calculated based on the expected annual tax rate of the applicable tax jurisdictions.

Please refer to Notes 6 and 7 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 August 31, 2017 for further explanation as to the nature of these items.