



Q4 Fiscal 2017 Earnings Commentary

March 27, 2018

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 \$1.9 million in the fourth quarter of fiscal 2017, and a related income tax recovery of \$0.9 million. The company also recognized a provisional income tax expense of \$59.3 million in the fourth quarter of fiscal 2017 related to the U.S. Tax Cuts and Jobs Act ("U.S. Tax Reform"). The adjusted financial measures exclude these items, and also exclude certain discrete items related to our transfer pricing arrangements and taxes on repatriation of foreign earnings which were recognized during the fourth 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 annual report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on, or about, March 27, 2018. These reports are available at www.sec.gov.

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

Sales

- **Total net revenue** increased 17.6% to \$928.8 million, with the increase primarily resulting from:
 - a total comparable sales increase of 11% on a constant dollar basis, comprised of a comparable store sales increase of 1% and an ecommerce increase of 42%;
 - net revenue from company-operated stores we opened or significantly expanded subsequent to Q4 2016, and are therefore not included in comparable store sales, increased net revenue by \$57.5 million. We opened 46 net new lululemon branded company-operated stores since Q4 2016 including 24 net new lululemon branded company-operated stores in the United States, 12 stores in Asia, six stores in Canada, two stores in Australia and New Zealand, and two stores in Europe;
 - an increase in other revenue of \$18.9 million; and
 - an increase in net revenue of \$11.2 million, or 1.4%, due to foreign exchange.

These increases in net revenue were partially offset by the closure of 48 of our ivivva branded company-operated stores as part of the restructuring of our ivivva operations in Q3 2017. These closures reduced our Q4 2017 net revenue from company-operated stores by \$17.8 million compared to Q4 2016.

- **Company-operated store revenue** totaled \$618.9 million, or 66.6% of total revenue, compared to \$570.8 million, or 72.3% of total revenue, in Q4 2016.
- **Ecommerce revenue** totaled \$236.1 million, or 25.4% of total revenue, compared to \$164.3 million, or 20.8% of total revenue, in Q4 2016.
- **Other revenue**, which includes sales from outlets, temporary locations including seasonal stores, sales to wholesale accounts, showrooms, warehouse sales, and license and supply arrangements totaled \$73.7 million, or 7.9% of total net revenue, compared to \$54.9 million, or 6.9% of total net revenue, in Q4 2016.



Store Count

- **New stores:** We opened 16 net new lululemon branded company-operated stores in Q4 2017. We opened six stores in each of the United States and Asia, three stores in Canada, and one store in Australia.
- **Total company-operated stores:** At the end of Q4 2017, we had 404 total company-operated stores (including seven ivivva) compared to 406 (including 55 ivivva) at the end of Q4 2016. Of the 404 company-operated stores, 330 were in our comparable store base, including 230 stores in the United States, 48 stores in Canada, 31 stores in Australia and New Zealand, 11 stores in Asia, and ten stores in Europe.
- **Showrooms:** At the end of Q4 2017, we had a total of 23 showrooms compared to 51 at the end of Q4 2016. Of the 23 showrooms, we had 12 in Europe, seven in the United States, and four in Asia.

Gross Profit

- **Gross profit** was \$522.5 million, or 56.3% of net revenue, compared to \$427.9 million, or 54.2% of net revenue, in Q4 2016. Excluding the impact of the restructuring of the ivivva operations, adjusted gross margin increased 200 basis points to 56.2%. The increase in gross margin was primarily the result of:
 - an increase in product margin of 130 basis points which was primarily due to lower product costs and a favorable mix of higher margin product, and lower markdowns, partially offset by higher air freight costs and inventory provision expense;
 - a decrease in occupancy and depreciation costs of 40 basis points; and
 - a favorable impact of foreign exchange rates of 30 basis points.

Selling, General and Administrative Expenses

- **SG&A expenses** were \$264.2 million, or 28.4% of net revenue, compared to \$231.3 million, or 29.3% of net revenue, in Q4 2016. The 90 basis points decrease in our SG&A rate was primarily the result of:
 - leverage on corporate costs of 30 basis points;
 - foreign exchange, including both translation and revaluation impact, of 30 basis points; and
 - leverage of 30 basis points on other SG&A costs.

Asset Impairment and Restructuring Costs

- There were \$2.0 million in lease termination costs, employee costs, and other restructuring costs related to the ivivva restructuring that was recognized in Q4 2017.

Operating Income

- **Operating income** was \$256.3 million, or 27.6% of net revenue, compared to \$196.6 million, or 24.9% of net revenue, in Q4 2016. Excluding the pre-tax charges of \$1.9 million related to the ivivva restructuring, adjusted operating income increased to \$258.1 million, or 27.8% of net revenue, compared to \$196.6 million, or 24.9% of net revenue, in Q4 2016.



Income Tax Expense

- **Income tax expense** was \$137.7 million, or 53.5% of pre-tax earnings, compared to 31.1% in Q4 2016. The adjusted effective tax rate for Q4 2017 was 30.6% compared to 30.6% in Q4 2016.

Net Income

- **Net income** was \$119.8 million, or \$0.88 per diluted share, compared to \$0.99 per diluted share in Q4 2016. Net income in Q4 2017 included \$59.3 million, or \$0.44 per share, in income tax expense related to the U.S. Tax Reform and \$1.0 million, or \$0.01 per share, in ivivva related restructuring charges. Excluding these charges, adjusted earnings per share were \$1.33 compared to an adjusted earnings per share of \$1.00 in Q4 2016.

Share Count

- Our diluted share count for the quarter was 135.7 million compared to 137.2 million in Q4 2016. This takes into account the weighted impact of the 13.3 thousand shares which we repurchased in Q4 2017.
- During fiscal 2017, we have repurchased a total of 1.9 million shares. The shares were repurchased under both the previous \$100 million stock repurchase program which was completed in the third quarter of fiscal 2017 and the \$200 million stock repurchase program which commenced in November 2017.

Capital Expenditures

- **Capital expenditures** were \$50.7 million in Q4 2017 compared to \$43.3 million in Q4 2016. The increase was primarily due to corporate capital expenditures relating to our investments in information technology and business systems, including our new enterprise resource planning system, in Q4 2017 compared to Q4 2016.

Balance Sheet Highlights

- Cash and cash equivalents was \$990.5 million at the end of Q4 2017.
- Inventory increased 10% to \$329.6 million at the end of Q4 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; 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; the continued service of our senior management and our ability to identify and attract our next Chief Executive Officer; 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; 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 press release 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 2017 compared to the fourth quarter of fiscal 2016.

	Net Revenue	Total Comparable Sales ^{1,2}	Comparable Store Sales ²	Direct to Consumer Net Revenue
Increase	18%	12%	2%	44%
Adjustments due to foreign exchange rate changes	(2)	(1)	(1)	(2)
Increase in constant dollars.	16%	11%	1%	42%

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

²Comparable 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 tables reconcile adjusted financial measures with the most directly comparable measures calculated in accordance with GAAP. The adjustments relate to the restructuring of our ivivva operations and its related tax effects, the amounts recognized in connection with U.S. tax reform, and certain discrete items related to our transfer pricing arrangements and taxes on repatriation of foreign earnings. 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, 2018 for further information on these adjustments.

	Quarter Ended January 28, 2018			
	Adjustments			Adjusted Results (Non-GAAP)
	GAAP Results	Restructuring of ivivva Operations	U.S. Tax Reform	
	<i>(In thousands, except per share amounts)</i>			
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

	Quarter Ended January 29, 2017		
	GAAP Results	Transfer Pricing and Repatriation Tax Adjustments	Adjusted Results (Non-GAAP)
		<i>(In thousands, except per share amounts)</i>	
Income before income tax expense	197,486	(557)	196,929
Income tax expense	61,351	(928)	60,423
Effective tax rate	31.1%	(0.5)%	30.6%
Diluted earnings per share	\$ 0.99	\$ 0.01	\$ 1.00