



Q4 Fiscal 2019 Earnings Commentary

March 26, 2020

The summary below provides both GAAP and non-GAAP financial measures. The adjusted financial measures for fiscal 2018 exclude the amounts recognized in connection with U.S. tax reform and taxes on the repatriation of foreign earnings. 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 26, 2020. These reports are available at www.sec.gov.

The below narrative compares the fourth quarter of fiscal 2019 to the fourth quarter of fiscal 2018 unless otherwise noted.

Sales

- **Total net revenue** increased 19.7% to \$1.4 billion, with the increase primarily resulting from:
 - the opening of 51 net new lululemon branded company-operated stores since Q4 2018. We opened 22 net new company-operated stores in Asia, 19 in North America, eight in Europe, and two in Australia and New Zealand;
 - a total comparable sales increase of 20% on a constant dollar basis, comprised of a comparable store sales increase of 9% and an ecommerce increase of 41%;
 - net revenue from company-operated stores we opened or significantly expanded subsequent to Q4 2018, and are therefore not included in comparable store sales, increased net revenue by \$77.3 million; and
 - an increase in other revenue of \$9.2 million.

The impact of foreign exchange increased net revenue by \$0.3 million.

Due to the 53rd week in fiscal 2018, comparable sales are calculated on a one week shifted basis such that the 13 weeks ended February 2, 2020 are compared to the 13 weeks ended February 3, 2019 rather than January 27, 2019.

- **Company-operated store revenue** totaled \$831.4 million, or 59.5% of total revenue, compared to \$730.0 million, or 62.5% of total revenue, in Q4 2018. We generated net revenue of \$32.7 million in the 53rd week of fiscal 2018 from our company-operated stores segment.
- **Ecommerce revenue** totaled \$463.6 million, or 33.2% of total revenue, compared to \$344.2 million, or 29.5% of total revenue, in Q4 2018. We generated net revenue of \$20.3 million in the 53rd week of fiscal 2018 from our direct to consumer segment.
- **Other revenue**, which includes outlets, temporary locations including seasonal stores, sales to wholesale accounts, license and supply arrangements, and warehouse sales totaled \$102.5 million, or 7.3% of total net revenue, compared to \$93.2 million, or 8.0% of total net revenue, in Q4 2018.



Store Count

- **New stores:** We opened 12 net new company-operated stores in Q4 2019 including six in Asia, four in North America, and two in Europe.
- **Total company-operated stores:** At the end of Q4 2019, we had 491 total company-operated stores compared to 440 at the end of Q4 2018. Of the 491 company-operated stores, 389 were in our comparable store base, including 251 in the United States, 54 in Canada, 33 in Australia and New Zealand, 33 in Asia, and 18 in Europe.

Gross Profit

- **Gross profit** was \$810.8 million, or 58.0% of net revenue, compared to \$668.6 million, or 57.3% of net revenue, in Q4 2018. The increase in gross margin was primarily the result of an increase in product margin of 80 basis points which was primarily due to lower product costs and a favorable mix of higher margin product.

Selling, General and Administrative Expenses

- **SG&A expenses** were \$394.3 million, or 28.2% of net revenue, compared to \$337.2 million, or 28.9% of net revenue, in Q4 2018. The leverage of 70 basis points in our SG&A rate was primarily the result of 100 basis points of leverage on operating channel and corporate costs, partially offset by 30 basis points of deleverage in foreign exchange.

Operating Income

- **Operating income** was \$416.5 million, or 29.8% of net revenue, compared to \$331.4 million, or 28.4% of net revenue, in Q4 2018.

Income Tax Expense

- **Income tax expense** was \$120.6 million compared to \$115.8 million in Q4 2018 and the effective tax rate was 28.8% compared to 34.6% in Q4 2018.

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%. The increase in our effective tax rate for Q4 2019 compared to the adjusted effective tax rate for Q4 2018 was primarily due to a reduction in the accrual for global intangible low-taxed income ("GILTI") taxes in Q4 2018.

Net Income

- **Net income** was \$298.0 million, or \$2.28 per diluted share, compared to \$1.65 per diluted share in Q4 2018. 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 in Q4 2018.



Share Count

- Our diluted share count for the quarter was 130.9 million compared to 132.5 million in Q4 2018.
- During the fourth quarter of fiscal 2019, we repurchased 1.6 thousand shares at a cost of \$0.3 million.

Capital Expenditures

- Capital expenditures were \$68.8 million in Q4 2019 compared to \$69.1 million in Q4 2018.

Balance Sheet Highlights

- Cash and cash equivalents were \$1.1 billion at the end of Q4 2019.
- Inventory increased 28% to \$518.5 million at the end of Q4 2019 compared to Q4 2018.



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; the recent COVID-19 coronavirus outbreak and related government, private sector, and individual consumer responsive actions; 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; suppliers or manufacturers not complying with our Vendor Code of Ethics or applicable laws; the operations of many of our suppliers are subject to international and other risks; 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; global economic and political conditions and global events such as health pandemics; 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; our ability to source and sell our merchandise profitably or at all if new trade restrictions are imposed or existing trade restrictions become more burdensome; 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; 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 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 supplement 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 show the net change for the fourth quarter of fiscal 2019 compared to the fourth quarter of fiscal 2018. Due to the 53rd week in fiscal 2018, the below changes in total comparable sales, comparable store sales, and direct to consumer net revenue are calculated on a one week shifted basis such that the 13 weeks ended February 2, 2020 are compared to the 13 weeks ended February 3, 2019 rather than January 27, 2019.

	Change in Net Revenue	Change in Total Comparable Sales ^{1,2}	Change in Comparable Store Sales ²	Change in Direct to Consumer Net Revenue
Change	20%	20%	9%	41%
Adjustments due to foreign exchange rate changes	—	—	—	—
Change in constant dollars	20%	20%	9%	41%

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 full fiscal months, or open for at least 12 full fiscal 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 the amounts recognized in connection with U.S. tax reform and taxes on repatriation of foreign earnings. Please refer to Note 15 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 26, 2020 for further information on these adjustments.

	Quarter Ended February 3, 2019			
	GAAP Amounts	Adjustments		Adjusted Amounts (Non-GAAP)
		Tax on Repatriation of Foreign Earnings	U.S. Tax Reform	
	<i>(In thousands, except per share amounts)</i>			
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