



Lulus Reports Third Quarter 2023 Results and Updates Full Year 2023 Guidance

November 8, 2023

Net Revenue of \$83.1 million, down 21% from Third Quarter 2022

Grew Net Cash Provided by Operating Activities and Free Cash Flow by 122% and 150%, respectively, from Third Quarter 2022

CHICO, Calif., Nov. 08, 2023 (GLOBE NEWSWIRE) -- Lulu's Fashion Lounge Holdings, Inc. ("Lulus" or the "Company") (Nasdaq: LVLU) today reported financial results for the third quarter ended October 1, 2023, and updated its full-year 2023 financial guidance.

Crystal Landsem, CEO of Lulus, said:

"In the third quarter of 2023, we continued to see the impact of macroeconomic headwinds on consumer spending and purchasing behavior, which impacted our financial results. Our year-over-year net revenue comparison was primarily affected by the redirection of performance marketing investments towards markdowns and promotional pricing, as well as by overall softness in our more basic product offering. While the results fell short of our expectations, our customers' demand for our new and 'must have' novelty items is a positive indicator for our future reorder business. Our team continues to expeditiously adjust to dynamic market changes and further optimize inventory turnover amidst a complex and fluctuating macroeconomic environment.

We remain committed to delivering exceptional customer experiences while navigating the ongoing macroeconomic pressures. During the third quarter, our business continued to generate liquidity with significant year-over-year increases in net cash provided by operating activities and Free Cash Flow. We continue to focus on adapting to changing customer behavior, optimizing inventory and discretionary expenses, and driving brand awareness, supported by our strong balance sheet. Combined with our capital light operating model, we believe we are well positioned to continue investing in our strategic initiatives and long-term growth opportunities while weathering the continued macro uncertainty."

Third Quarter 2023 Highlights:

- Net revenue of \$83.1 million, a 21% decrease compared to the third quarter of 2022, driven by a 19% decrease in Total Orders Placed, as well as higher markdowns and return rates.
- Active Customers of 3.0 million, an 8% decrease compared to the third quarter of 2022.
- Average Order Value ("AOV") of \$133, flat compared to \$133 in the third quarter of 2022.
- Gross Margin decreased 180 basis points to 40.3% and gross profit decreased 24%, compared to the third quarter of 2022.
- Interest expense of \$0.4 million, compared to \$0.3 million in the third quarter of 2022.
- Net loss of \$3.9 million, compared to net income of \$0.9 million in the third quarter of 2022.
- Adjusted EBITDA of \$1.0 million, compared to \$5.4 million in the third quarter of 2022.
- Net cash provided by operating activities was \$12.7 million, compared to \$5.7 million in the third quarter of 2022.
- Free Cash Flow was \$11.6 million, compared to \$4.6 million in the third quarter of 2022.
- Total debt, comprised of the revolving line of credit, decreased by \$4.0 million and \$14.0 million during the thirteen and thirty-nine weeks ended October 1, 2023, respectively.
- Net Debt (as defined as total debt less cash and cash equivalents) decreased by \$10.9 million and \$16.6 million during the thirteen and thirty-nine weeks ended October 1, 2023, respectively, resulting in a Net Cash position of \$1.9 million as of October 1, 2023.

	Thirteen Weeks Ended		
	October 1, 2023	October 2, 2022	YoY Change
	(In thousands, except percentages)		
Net revenue	\$ 83,118	\$ 105,275	(21) %
Gross profit	\$ 33,525	\$ 44,333	(24) %
Gross Margin*	40.3 %	42.1 %	(180) bps
Net income (loss)	\$ (3,889)	\$ 929	NM
Adjusted EBITDA*	\$ 972	\$ 5,364	(82) %
Diluted earnings (loss) per share	\$ (0.10)	\$ 0.02	NM
Active Customers*	2,960	3,230	(8) %
Net cash provided by operating activities	\$ 12,749	\$ 5,745	122 %
Free Cash Flow*	\$ 11,558	\$ 4,615	150 %

NM – not meaningful

* Note: Refer to "Use of Non-GAAP Financial Measures and Other Operating Metrics" section below for definitions of these metrics.

Updating Financial Outlook for Full Year 2023:

We remain confident in our path to long-term growth and are resolute in our commitment to expanding the brand, though we continue to view the current macroeconomic pressures as temporary headwinds impacting our business. In response to these conditions and our modest year-to-date performance, we are adjusting our outlook for the full year 2023.

- We expect net revenue to be between \$350 million and \$360 million, compared with the prior range of \$355 million to \$375 million, which reflects continued macroeconomic headwinds.
- We expect Adjusted EBITDA to be between \$4.5 million and \$5.5 million, compared with the prior range of \$5 million to \$10 million, which reflects the impact of the lowered net revenue range.
- We expect interest expense to be approximately \$1.6 million, consistent with our previous outlook, which reflects the impact of higher interest rates offsetting lower expected revolver balances.
- We expect capital expenditures to be between \$4.5 million and \$5 million, compared with the previous range of \$5 million to \$6 million due to judicious capital spending.

Forecasting future results or trends is inherently difficult for any business, and actual results or trends may differ materially from those forecasted. Lulus' outlook is based on current indications for its business. Lulus' outlook factors in our current best estimates for anticipated headwinds, including those related to the level of demand, spending and returns by our customers, macroeconomic uncertainties, inflation, supply chain pressures, and shipping costs. Given the volatile nature of current consumer demand and potential for further impacts to consumer behavior due to pockets of continued inflation, higher interest rates, the resumption of student loan interest and payments, combined with less predictable consumer purchasing behavior, Lulus' financial outlook is subject to change.

LULU'S FASHION LOUNGE HOLDINGS, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (Unaudited) (In thousands, except share and per share data)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Net revenue	\$ 83,118	\$ 105,275	\$ 280,216	\$ 348,689
Cost of revenue	49,593	60,942	161,334	191,211
Gross profit	33,525	44,333	118,882	157,478
Selling and marketing expenses	16,825	19,356	60,984	67,093
General and administrative expenses	21,575	24,418	70,319	75,644
Income (loss) from operations	(4,875)	559	(12,421)	14,741
Interest expense	(442)	(329)	(1,391)	(694)
Other income, net	270	21	716	102
Income (loss) before provision (benefit) for income taxes	(5,047)	251	(13,096)	14,149
Income tax provision (benefit)	(1,158)	(678)	(992)	5,178
Net income (loss) and comprehensive income (loss)	<u>\$ (3,889)</u>	<u>\$ 929</u>	<u>\$ (12,104)</u>	<u>\$ 8,971</u>
Basic earnings (loss) per share	<u>\$ (0.10)</u>	<u>\$ 0.02</u>	<u>\$ (0.31)</u>	<u>\$ 0.23</u>
Diluted earnings (loss) per share	<u>\$ (0.10)</u>	<u>\$ 0.02</u>	<u>\$ (0.31)</u>	<u>\$ 0.23</u>
Basic weighted-average shares outstanding	<u>40,103,152</u>	<u>38,711,915</u>	<u>39,672,938</u>	<u>38,448,656</u>
Diluted weighted-average shares outstanding	<u>40,103,152</u>	<u>38,898,416</u>	<u>39,672,938</u>	<u>38,699,110</u>

LULU'S FASHION LOUNGE HOLDINGS, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (In thousands, except share and per share data)

	October 1, 2023	January 1, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,866	\$ 10,219
Accounts receivable	3,438	3,908

Inventory, net	41,490	43,186
Assets for recovery	5,743	3,890
Income tax refund receivable	2,869	4,078
Prepays and other current assets	3,049	3,738
Total current assets	69,455	69,019
Property and equipment, net	4,438	4,391
Goodwill	35,430	35,430
Tradename	18,509	18,509
Intangible assets, net	3,256	3,090
Lease right-of-use assets	30,857	32,514
Other noncurrent assets	5,431	4,251
Total assets	<u>\$ 167,376</u>	<u>\$ 167,204</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 8,919	\$ 5,320
Accrued expenses and other current liabilities	21,203	17,976
Returns reserve	15,694	9,066
Stored-value card liability	12,669	10,828
Lease liabilities, current	5,419	4,456
Total current liabilities	63,904	47,646
Revolving line of credit	11,000	25,000
Lease liabilities, noncurrent	26,780	29,042
Other noncurrent liabilities	956	623
Total liabilities	102,640	102,311
Stockholders' equity:		
Preferred stock: \$0.001 par value, 10,000,000 shares authorized, and no shares issued or outstanding	—	—
Common stock: \$0.001 par value, 250,000,000 shares authorized; and 40,464,483 and 39,259,328 shares issued and outstanding as of October 1, 2023 and January 1, 2023, respectively	40	39
Additional paid-in capital	250,671	238,725
Accumulated deficit	(185,975)	(173,871)
Total stockholders' equity	64,736	64,893
Total liabilities and stockholders' equity	<u>\$ 167,376</u>	<u>\$ 167,204</u>

LULU'S FASHION LOUNGE HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Thirty-Nine Weeks Ended	
	October 1, 2023	October 2, 2022
Cash Flows from Operating Activities		
Net income (loss)	\$ (12,104)	\$ 8,971
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,546	2,980
Noncash lease expense	2,699	2,390
Amortization of debt discount and debt issuance costs	117	118
Equity-based compensation expense	13,366	12,245
Deferred income taxes	(2,281)	(3,757)
Loss on disposal of property and equipment	—	11
Changes in operating assets and liabilities:		
Accounts receivable	470	103
Inventories	1,696	(27,240)
Assets for recovery	(1,853)	(2,931)
Income taxes payable	2,243	3,931
Prepaid and other current assets	527	5
Accounts payable	3,620	2,174

Accrued expenses and other current liabilities	11,636	19,544
Operating lease liabilities	(2,464)	(1,806)
Other noncurrent liabilities	(118)	(405)
Net cash provided by operating activities	21,100	16,333
Cash Flows from Investing Activities		
Capitalized software development costs	(1,550)	(1,869)
Purchases of property and equipment	(1,393)	(1,902)
Other	(66)	(97)
Net cash used in investing activities	(3,009)	(3,868)
Cash Flows from Financing Activities		
Proceeds from borrowings on revolving line of credit	10,000	20,000
Repayments on revolving line of credit	(24,000)	(30,000)
Proceeds from issuance of common stock under employee stock purchase plan (ESPP)	487	—
Principal payments on finance lease obligations	(726)	(541)
Payment of offering costs related to the IPO	—	(832)
Withholding tax payments related to vesting of RSUs	(1,199)	—
Other	(6)	(28)
Net cash used in financing activities	(15,444)	(11,401)
Net decrease in cash, cash equivalents and restricted cash	2,647	1,064
Cash, cash equivalents and restricted cash at beginning of period	10,219	11,908
Cash, cash equivalents and restricted cash at end of period	<u>\$ 12,866</u>	<u>\$ 12,972</u>
Reconciliation of cash, cash equivalents and restricted cash		
Cash and cash equivalents	\$ 12,866	\$ 12,465
Restricted cash	—	507
Total cash, cash equivalents and restricted cash, end of period	<u>\$ 12,866</u>	<u>\$ 12,972</u>

Webcast & Conference Call Information

The Company will host a conference call and live webcast with the investment community at 5:00 p.m. Eastern Time today, Wednesday, November 8, 2023, to discuss its third quarter 2023 results. The live webcast will be accessible through the Investor Relations section of the Company's website at <https://investors.lulus.com/>. To access the call through a conference line, dial 1-877-407-0792 (in the U.S.) or 1-201-689-8263 (international callers). A replay of the conference call will be posted shortly after the call and will be available for seven days following the call. To access the replay, dial 1-844-512-2921 (in the U.S.) or 1-412-317-6671 (international callers). The access code for the replay is 13741315.

About Lulus

Lulus is a customer driven, digitally native fashion brand for women. Based in California and serving millions of customers worldwide, Lulus develops styles with the customer in mind, using direct consumer feedback and insights to refine its products. With fresh inventory hitting the site almost daily, Lulus features on-trend, high-quality, must-have pieces, at affordable prices. As a brand built on customer feedback, Lulus puts an extreme focus on providing exceptional customer service and a personalized shopping experience. The brand's world class personal stylists, bridal concierge, and customer care team take pride in offering a personalized shopping experience to every customer. Lulus was founded in 1996. Lulus is a registered trademark of Lulus's Fashion Lounge, LLC. All rights reserved.

Forward-Looking Statements

This press release contains "forward-looking statements" within the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical or current fact included in this press release are forward-looking statements, including but not limited to statements regarding our expectation of a continued complex and fluctuating macroeconomic environment and our financial outlook for the fiscal year ending December 31, 2023. These statements are neither promises nor guarantees, but involve known and unknown risks, uncertainties and other important factors that may cause Lulus' actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including but not limited to the following: risks related to our operations and financial results; our ability to successfully maintain our desired merchandise assortment or manage our inventory effectively; demand for our products, including our ability to anticipate, identify, measure, and respond quickly to fashion trends, customer preferences and demands; our ability to anticipate, measure and establish appropriate policies for customer merchandise returns; general economic conditions, including inflation; our fluctuating operating results; seasonality in our business; our ability to acquire products on reasonable terms; our e-commerce business model; our ability to attract and retain customers in a cost effective manner; the strength of our brand; competition; fraud; system interruptions; system security risks including security breaches; our ability to fulfill orders; and the continued impact of the COVID-19 pandemic on our business. These and other important factors discussed under the caption "Risk Factors" in Lulus' Annual Report on Form 10-K for the fiscal year ended January 1, 2023, and its other filings with the Securities and Exchange Commission could cause actual results to differ materially from those indicated by the forward-looking statements made in this press release. Any such forward-looking statements represent management's estimates as of the date of this press release. While Lulus may elect to update such forward-looking statements at some point in the future, it disclaims any obligation to do so, except as required by law, even if subsequent events cause its views to change.

Use of Non-GAAP Financial Measures and Other Operating Metrics

To supplement our condensed consolidated financial statements, which are prepared and presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), we reference in this press release and the accompanying tables the following non-GAAP

financial measures: Adjusted EBITDA, Adjusted EBITDA Margin, Net Cash (Debt) and Free Cash Flow. The presentation of this non-GAAP financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and our non-GAAP measures may be different from non-GAAP measures used by other companies. We use these non-GAAP financial measures to evaluate our operating performance, generate future operating plans and make strategic decisions regarding the allocation of capital. Our management believes that these non-GAAP financial measures provide meaningful supplemental information regarding our performance and liquidity by excluding certain expenses that may not be indicative of our ongoing core operating performance. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when analyzing historical performance and liquidity and when planning, forecasting, and analyzing future periods. For a reconciliation of these non-GAAP financial measures to GAAP measures, please see the tables captioned "Reconciliation of Non-GAAP Financial Measures" included at the end of this release. Definitions of our non-GAAP financial measures and other operating metrics are presented below. A reconciliation of Adjusted EBITDA guidance to net (loss) income on a forward-looking basis cannot be provided without unreasonable efforts, as we are unable to provide reconciling information with respect to equity-based compensation expense and income tax, all of which are adjustments to Adjusted EBITDA. We also use certain key operating metrics, including Gross Margin, Active Customers, Average Order Value, and Total Orders Placed.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure that we calculate as net (loss) income before interest expense, income taxes, depreciation and amortization, adjusted to exclude the effects of equity-based compensation expense. Adjusted EBITDA is a key measure used by management to evaluate our operating performance, generate future operating plans and make strategic decisions regarding the allocation of capital. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA facilitates operating performance comparisons on a period-to-period basis and, in the case of exclusion of the impact of equity-based compensation, excludes an item that we do not consider to be indicative of our core operating performance.

Adjusted EBITDA Margin

Adjusted EBITDA Margin is a non-GAAP financial measure that we calculate as Adjusted EBITDA (as defined above) as a percentage of our net revenue.

Active Customers

We define Active Customers as the number of customers who have made at least one purchase across our platform in the prior 12-month period. We consider the number of Active Customers to be a key performance metric on the basis that it is directly related to consumer awareness of our brand, our ability to attract visitors to our digital platform, and our ability to convert visitors to paying customers. Active Customer counts are based on de-duplication logic using customer account and guest checkout name, address, and email information.

Average Order Value

We define Average Order Value ("AOV") as the sum of the total gross sales before returns across our platform in a given period, plus shipping revenue, less discounts and markdowns, divided by the Total Orders Placed (as defined below) in that period. AOV reflects average basket size of our customers. AOV may fluctuate as we continue investing in the development and introduction of new Lulus merchandise and as a result of our promotional discount activity.

Free Cash Flow

Free Cash Flow is a non-GAAP financial measure that we calculate as net cash provided by operating activities less cash used for capitalized software development costs and purchases of property and equipment. We view Free Cash Flow as an important indicator of our liquidity because it measures the amount of cash we generate.

Gross Margin

We define Gross Margin as gross profit as a percentage of our net revenue. Gross profit is equal to our net revenue less cost of revenue. Certain of our competitors and other retailers report cost of revenue differently than we do. As a result, the reporting of our gross profit and Gross Margin may not be comparable to other companies.

Net Cash (Debt)

Net Cash (Debt) is defined as total debt, which currently consists of the revolving line of credit, long-term, less cash and cash equivalents. We consider Net Cash (Debt) to be an important supplemental measure of our financial position, which allows us to analyze our leverage.

Total Orders Placed

We define Total Orders Placed as the number of customer orders placed across our platform during a particular period. An order is counted on the day the customer places the order. We do not adjust the number of Total Orders Placed for any cancellation or return that may have occurred subsequent to a customer placing an order. We consider Total Orders Placed as a key performance metric on the basis that it is directly related to our ability to attract and retain customers as well as drive purchase frequency. Total Orders Placed, together with AOV, is an indicator of the net revenue we expect to generate in a particular period.

LULU'S FASHION LOUNGE HOLDINGS, INC.

KEY OPERATING AND FINANCIAL METRICS (Unaudited)

Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022

	(In thousands, except Average Order Value and percentages)			
Gross Margin	40.3 %	42.1 %	42.4 %	45.2 %
Net income (loss)	\$ (3,889)	\$ 929	\$ (12,104)	\$ 8,971
Adjusted EBITDA	\$ 972	\$ 5,364	\$ 5,207	\$ 30,068
Adjusted EBITDA Margin	1.2 %	5.1 %	1.9 %	8.6 %
Average Order Value	\$ 133	\$ 133	\$ 133	\$ 131
Active Customers	2,960	3,230	2,960	3,230

Note: Refer to “Use of Non-GAAP Financial Measures and Other Operating Metrics” section above for definitions of these metrics.

LULU’S FASHION LOUNGE HOLDINGS, INC.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES (Unaudited)

A reconciliation to non-GAAP Net Cash (Debt) from Total Debt as of October 1, 2023, July 2, 2023 and January 1, 2023, respectively, is as follows:

	As of		
	October 1, 2023	July 2, 2023	January 1, 2023
	(In thousands)		
Total Debt (1)	\$ (11,000)	\$ (15,000)	\$ (25,000)
Cash and cash equivalents	12,866	5,947	10,219
Net Cash (Debt)	\$ 1,866	\$ (9,053)	\$ (14,781)

(1) Consists of the revolving line of credit, long term

A reconciliation to non-GAAP Adjusted EBITDA from net (loss) income for the thirteen and thirty-nine weeks ended October 1, 2023 and October 2, 2022 is as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
	(In thousands, except percentages)			
Net income (loss)	\$ (3,889)	\$ 929	\$ (12,104)	\$ 8,971
Excluding:				
Depreciation and amortization	1,240	1,130	3,546	2,980
Interest expense	442	329	1,391	694
Income tax provision (benefit)	(1,158)	(678)	(992)	5,178
Equity-based compensation expense (1)	4,337	3,654	13,366	12,245
Adjusted EBITDA	\$ 972	\$ 5,364	\$ 5,207	\$ 30,068
Net income (loss) margin	(4.7) %	0.9 %	(4.3) %	2.6 %
Adjusted EBITDA margin	1.2 %	5.1 %	1.9 %	8.6 %

(1) The thirteen weeks ended October 1, 2023 and October 2, 2022 include equity-based compensation expense for restricted stock unit (“RSU”) awards granted during the period, as well as equity-based awards granted in prior periods. The thirty-nine weeks ended October 1, 2023 include equity-based compensation expense for performance stock units and RSU awards granted during the period, accelerated expense associated with the voluntary forfeiture of stock options, and equity-based awards granted in prior periods. The thirty-nine weeks ended October 2, 2022 include equity-based compensation expense for RSU awards granted during the period, as well as equity-based awards granted in prior periods.

A reconciliation to non-GAAP Free Cash Flow from net cash provided by operating activities for the thirteen and thirty-nine weeks ended October 1, 2023 and October 2, 2022 is as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Net cash provided by operating activities	\$ 12,749	\$ 5,745	\$ 21,100	\$ 16,333
Capitalized software development costs	(524)	(622)	(1,550)	(1,869)
Purchases of property and equipment	(667)	(508)	(1,393)	(1,902)
Free Cash Flow	\$ 11,558	\$ 4,615	\$ 18,157	\$ 12,562

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