



14375 NW Science Park Drive
 Portland, OR 97229
 July 26, 2018

CFO Commentary on Second Quarter and First Half 2018 Financial Results and Updated Full Year 2018 Financial Outlook

Financial Information

Please reference accompanying financial information in the corresponding earnings release at <http://investor.columbia.com/results.cfm>.

Conference Call

The company will host a conference call on Thursday, July 26, 2018 at 5:00 p.m. ET to review second quarter and first half 2018 financial results, as well as its updated full year 2018 financial outlook. To participate, please dial (877) 407-9205 in the U.S. The call will be webcast live on the Investor Relations section of the company's website <http://investor.columbia.com>.

Throughout this press release, references to non-GAAP financial measures in the second quarter of 2018 exclude \$7.5 million in net sales, gross profit and selling, general and administrative ("SG&A") expenses associated with adoption of Accounting Standards Codification - ASC 606 (hereinafter referred to as the "new revenue accounting standard"), \$1.9 million in Project CONNECT program expenses and discrete costs (\$1.4 million net of tax), and \$0.1 million in incremental provisional income tax expense related to the Tax Cuts and Jobs Act (the "TCJA"). References to non-GAAP financial measures in the second quarter of 2017 exclude \$4.1 million in Project CONNECT program expenses and discrete costs (\$2.6 million net of tax). References to non-GAAP financial measures in the first half of 2018 exclude \$15.7 million in net sales, gross profit and SG&A expenses associated with adoption of the new revenue accounting standard, \$12.9 million in Project CONNECT program expenses and discrete costs (\$9.8 million net of tax), and \$1.2 million in incremental provisional income tax expense related to the TCJA. References to non-GAAP financial measures in the first half of 2017 exclude \$5.3 million in Project CONNECT program expenses and discrete costs (\$3.4 million net of tax).

Second Quarter and First Half 2018 GAAP Financial Summary

- Second quarter net sales increased 21 percent (19 percent constant-currency) to a record \$481.6 million, compared to \$398.9 million in the second quarter of 2017.
- Second quarter operating income increased to \$9.7 million, representing 630 basis points of operating margin expansion to 2.0 percent of net sales, compared to (4.3) percent in the second quarter of 2017.
- Second quarter net income increased to \$9.7 million, or \$0.14 per diluted share, compared to a net loss of \$11.5 million, or \$(0.17) per share, in the second quarter of 2017.
- First half net sales increased 16 percent (13 percent constant-currency) to a record \$1,088.9 million, compared to \$942.7 million in the first half of 2017.
- First half net income increased 124 percent to a record \$54.8 million, or \$0.77 per diluted share, compared to \$24.5 million, or \$0.35 per diluted share, in the first half of 2017.
- Inventories increased 2 percent to \$570.5 million at June 30, 2018, compared to \$559.5 million at June 30, 2017.
- Cash and short-term investments totaled \$774.7 million at June 30, 2018, compared to \$622.2 million at June 30, 2017.
- The board of directors approved a regular quarterly dividend of \$0.22 per share, payable on August 30, 2018 to shareholders of record on August 16, 2018.

Second Quarter and First Half 2018 non-GAAP Financial Summary

- Non-GAAP second quarter net sales increased 19 percent (17 percent constant-currency) to \$474.1 million, compared to \$398.9 million in the second quarter of 2017.

- Non-GAAP second quarter operating income increased to \$11.6 million, representing 580 basis points of operating margin expansion to 2.5 percent of net sales, compared to (3.3) percent in the second quarter of 2017.
- Non-GAAP second quarter net income increased to \$11.3 million, or \$0.16 per diluted share, compared to a net loss of \$9.0 million, or \$(0.13) per share, in the second quarter of 2017.
- Non-GAAP first half net sales increased 14 percent (11 percent constant-currency) to \$1,073.2 million, compared to \$942.7 million in the first half of 2017.
- Non-GAAP first half net income increased 136 percent to \$65.8 million, or \$0.93 per diluted share, compared to \$27.9 million, or \$0.40 per diluted share, in the first half of 2017.

Three Months Ended June 30,						
	GAAP			Non-GAAP		
	2018	2017	Change	2018	2017	Change
(dollars in millions except per share amounts)						
Net sales	\$481.6	\$398.9	21%	\$474.1	\$398.9	19%
Gross margin	47.5%	45.3%	220 bps	46.6%	45.3%	130 bps
SG&A rate	46.1%	50.3%	-420 bps	44.9%	49.3%	-440 bps
Operating income (loss)	\$9.7	\$(17.3)	156%	\$11.6	\$(13.2)	188%
Operating margin	2.0%	(4.3)%	630 bps	2.5%	(3.3)%	580 bps
Net income (loss)	\$9.7	\$(11.5)	184%	\$11.3	\$(9.0)	226%
Earnings (loss) per diluted share	\$0.14	\$(0.17)	182%	\$0.16	\$(0.13)	223%

Six Months Ended June 30,						
	GAAP			Non-GAAP		
	2018	2017	Change	2018	2017	Change
(dollars in millions except per share amounts)						
Net sales	\$1,088.9	\$942.7	16%	\$1,073.2	\$942.7	14%
Gross margin	48.5%	46.6%	190 bps	47.7%	46.6%	110 bps
SG&A rate	42.8%	43.9%	-110 bps	40.7%	43.3%	-260 bps
Operating income	\$69.1	\$30.7	125%	\$81.9	\$36.1	127%
Operating margin	6.3%	3.3%	300 bps	7.6%	3.8%	380 bps
Net income	\$54.8	\$24.5	124%	\$65.8	\$27.9	136%
Earnings per diluted share	\$0.77	\$0.35	120%	\$0.93	\$0.40	133%

For more information on our non-GAAP financial measures and a reconciliation of GAAP to non-GAAP measures, please refer to the "Supplemental Financial Information" tables included in the earnings release announcing second quarter and first half 2018 financial results and full year 2018 financial outlook located on the investor relations section of the company's website at <http://investor.columbia.com/results.cfm>.

Updated Full Year 2018 Financial Outlook Summary

	Full Year 2018 (U.S. Dollar)	
	GAAP	Non-GAAP*
Net sales growth	9.0% to 10.5% (prior 8.0% to 10.0%)	7.5% to 9.0% (prior 6.5% to 8.5%)
Gross margin expansion	up to 140 bps	up to 60 bps
SG&A expense deleverage	120 bps to 140 bps (prior 150 bps to 170 bps)	20 bps to 40 bps (prior 30 bps to 50 bps)
Licensing Income	up to \$15.0 million (prior up to \$14.0 million)	up to \$15.0 million (prior up to \$14.0 million)
Income from operations	\$286 to \$295 million (prior \$275 to \$285 million)	\$306 to \$315 million (prior \$299 to \$308 million)
Operating margin	10.6% to 10.8% (prior 10.3% to 10.5%)	11.5% to 11.7% (prior 11.4% to 11.5%)
Effective income tax rate	approximately 22%**	approximately 22%**
Net income	\$223 to \$230 million (prior \$213 to \$220 million)	\$239 to \$246 million (prior \$231 to \$238 million)
Diluted earnings per share	\$3.15 to \$3.25 (prior \$3.01 to \$3.11)	\$3.37 to \$3.47 (prior \$3.27 to \$3.37)

* Updated full year 2018 non-GAAP financial measures exclude net sales of approximately \$40 million, with an offsetting increase in SG&A expenses of approximately \$40 million associated with the new revenue accounting standard, as well as Project CONNECT program expenses and discrete costs of approximately \$19 million, \$15 million net of tax, or \$0.21 per diluted share (prior \$23 million, \$18 million net of tax, or \$0.25 per diluted share).

** Our updated full year 2018 financial outlook anticipates an estimated full-year effective income tax rate of approximately 22 percent, which may be affected by further refinement of our 2017 provisional TCJA estimates, as well as changes in our geographic mix of pre-tax income and other discrete events that may occur during the year. In the first half of 2018, we incurred \$1.2 million, or \$0.02 per diluted share, in incremental provisional income tax expense related to the TCJA.

The **Updated Full Year 2018 Financial Outlook** section below contains a more detailed discussion of the factors contributing to this outlook.

Second Quarter Financial Results

(All comparisons are between second quarter of 2018 and second quarter of 2017, unless otherwise noted).

Net Sales

Consolidated net sales increased \$82.7 million, or 21 percent (19 percent constant-currency) to a record \$481.6 million, compared with net sales of \$398.9 million in the second quarter of 2017. Non-GAAP net sales of \$474.1 million increased 19 percent (17 percent constant-currency).

Geographies

	Net Sales (millions)		Constant-currency	
	Q2 2018	Q2 2017	Net Sales % Change	Net Sales % Change
	United States	\$280.2	\$238.2	18%
LAAP	100.8	79.5	27%	22%
EMEA	85.0	67.3	26%	21%
Canada	15.6	13.9	12%	7%
Total	<u>\$481.6</u>	<u>\$398.9</u>	21%	19%

- **United States**
 - Direct-to-consumer ("DTC") net sales increased mid-teens percent driven by brick & mortar net sales growth including improved store productivity and contribution from new store openings over the prior twelve months, as well as low-20 percent e-commerce net sales growth.
 - Wholesale net sales increased high-teens percent primarily driven by the Columbia brand reflecting increased advance Spring 2018 orders partially aided by a shift in timing of Spring 2018 shipments from the first quarter into the second quarter and increased replenishment orders.
 - The company operated 134 U.S. retail stores at June 30, 2018 (110 outlet; 24 branded) and 4 branded e-commerce sites, compared with 122 stores (98 outlet, 24 branded) and 4 branded e-commerce sites at the same time last year.
- **Latin America Asia Pacific ("LAAP")**
 - LAAP Distributor net sales increased low-50 percent driven by early Fall 2018 deliveries pulling forward from the third quarter into the second quarter.
 - Korea net sales increased mid-30 percent (high-20 percent constant-currency). Excluding \$6.4 million of net sales associated with the new revenue accounting standard, Korea non-GAAP net sales decreased mid-single-digit (high-single-digit percent decline constant-currency) due primarily to the exit of the Mountain Hardwear business in that market.
 - China net sales increased low-20 percent (low-teens percent constant-currency), primarily driven by a timing shift in which a higher proportion of Spring 2017 product was shipped in the first quarter of 2017 in advance of our ERP implementation in the second quarter of 2017.
 - Japan net sales increased low-teens percent (low-double-digit percent constant-currency). Excluding \$1.1 million of net sales associated with the new revenue accounting standard, Japan non-GAAP net sales increased high-single-digit percent (mid-single-digit percent constant-currency) due to strong DTC net sales.
- **Europe Middle East and Africa ("EMEA")**
 - EMEA Distributor net sales were up high-20 percent driven by increased advance Fall 2018 orders as well as earlier delivery of Fall 2018 shipments.
 - Europe-direct net sales increased low-20 percent (high-single-digit percent constant-currency), driven primarily by the wholesale channel, and to a lesser extent DTC net sales growth.
- **Canada**
 - DTC net sales increased mid-20 percent (high-teens percent constant-currency), driven by new brick & mortar stores and strong e-commerce growth.
 - Wholesale net sales increased low-single-digit percent (flat constant-currency).

Brands

	Net Sales (millions) Q2 2018	Net Sales (millions) Q2 2017	Net Sales % Change	Constant- currency Net Sales % Change
Columbia	\$414.8	\$340.5	22%	20%
SOREL	11.4	6.0	90%	85%
prAna	38.1	35.0	9%	9%
Mountain Hardwear	16.0	16.1	(1)%	(1)%
Other	1.3	1.3	—%	(15)%
Total	\$481.6	\$398.9	21%	19%

- **Columbia** brand net sales growth was driven by increased net sales in all major markets with growth across apparel and footwear.
- **SOREL** brand net sales growth was driven by U.S. wholesale and U.S. DTC due to favorable demand for the Spring 2018 product line as well as growth in our Europe-direct business.
- **prAna** brand net sales growth was driven by U.S. DTC and wholesale.
- **Mountain Hardwear** brand net sales declined slightly due to the 2017 decision to exit the brand from the Korean market, and lower Europe-direct and U.S. DTC sales, partially offset by net sales growth in U.S. wholesale and international distributor markets.

Product Categories

	Net Sales (millions) Q2 2018	Net Sales (millions) Q2 2017	Net Sales % Change	Constant- currency Net Sales % Change
Apparel, Accessories and Equipment	\$394.6	\$329.7	20%	18%
Footwear	87.0	69.2	26%	22%
Total	<u>\$481.6</u>	<u>\$398.9</u>	21%	19%

- **Apparel, Accessories and Equipment** net sales increased in the Columbia and prAna brands, partially offset by a slight decrease in sales in the Mountain Hardwear brand.
- **Footwear** net sales increased in both the Columbia and SOREL brands.

Channels

	Net Sales (millions) Q2 2018	Net Sales (millions) Q2 2017	Net Sales % Change	Constant- currency Net Sales % Change
Wholesale	\$261.2	\$211.6	23%	22%
DTC	220.4	187.3	18%	16%
Total	<u>\$481.6</u>	<u>\$398.9</u>	21%	19%

Gross Margin

Second quarter 2018 gross margin expanded 220 basis points to a record 47.5 percent of net sales, compared to 45.3 percent in the second quarter of 2017, primarily reflecting:

- changes in classification under the new revenue accounting standard;
- higher proportion of full price product sales; and
- favorable effects from foreign currency hedge rates; partially offset by
- a higher proportion of sales to independent international distributors, which generally carry lower gross margins.

Excluding \$7.5 million in revenue and gross profit associated with the new revenue accounting standard, non-GAAP gross margin expanded 130 basis points to 46.6 percent, compared to 45.3 percent in the second quarter of 2017.

Selling, General and Administrative ("SG&A") Expenses

Second quarter 2018 SG&A expenses increased \$21.6 million, or 11 percent, to \$222.2 million, or 46.1 percent of net sales, compared to \$200.6 million, or 50.3 percent of net sales, in the second quarter of 2017. Increased SG&A expenses included:

- increased expenses to support our expanding global DTC operations;
- changes in classification under the new revenue accounting standard;
- increased demand creation spending;
- the unfavorable impact of strengthening foreign currencies relative to the U.S. dollar; and
- increased incentive compensation expense.

Excluding \$7.5 million in SG&A expenses associated with the new revenue accounting standard and \$1.9 million in Project CONNECT program expenses and discrete costs, non-GAAP second quarter 2018 SG&A expenses increased \$16.3 million, or 8 percent, to \$212.8 million, or 44.9 percent of net sales.

Excluding \$4.1 million in Project CONNECT program expenses and discrete costs, second quarter of 2017 non-GAAP SG&A expenses were \$196.6 million, or 49.3 percent of net sales.

Operating Income

Second quarter 2018 operating income was \$9.7 million, or 2.0 percent of net sales, compared to an operating loss of \$17.3 million, or (4.3) percent of net sales, in the second quarter of 2017.

Excluding \$7.5 million in revenue, gross profit and SG&A expenses associated with the new revenue accounting standard, and \$1.9 million in Project CONNECT program expenses and discrete costs, non-GAAP second quarter 2018 operating income increased to \$11.6 million, or 2.5 percent of net sales.

Excluding \$4.1 million in Project CONNECT program expenses and discrete costs, non-GAAP second quarter of 2017 operating loss was \$13.2 million, or (3.3) percent of net sales.

Licensing

Second quarter 2018 net licensing income increased 35 percent to \$3.3 million, compared to \$2.5 million in the second quarter of 2017, primarily driven by increased net sales from existing licensing partners.

Income Tax Expense

Second quarter 2018 income tax expense was \$2.1 million, resulting in an effective income tax rate of 16.6 percent, compared to an income tax benefit of \$4.5 million, and an effective tax rate of 28.6 percent, in the second quarter of 2017. Our effective tax rate decreased compared to the prior year due to the change in the U.S. tax rate for the current year and increased tax benefits from stock-based compensation in the current period compared to the same period in the prior year.

Net Income

Second quarter 2018 net income increased to \$9.7 million, or \$0.14 per diluted share, compared to a net loss of \$11.5 million, or \$(0.17) per share, in the second quarter of 2017.

Excluding \$1.4 million, net of tax, in Project CONNECT program expenses and discrete costs, non-GAAP second quarter of 2018 net income was \$11.3 million, or \$0.16 per diluted share.

Excluding \$2.6 million, net of tax, in Project CONNECT program expenses and discrete costs, non-GAAP second quarter of 2017 net loss was \$9.0 million, or \$(0.13) per share.

Balance Sheet

At June 30, 2018, cash and short-term investments totaled \$774.7 million, compared to \$622.2 million at June 30, 2017.

Consolidated inventories increased 2 percent to \$570.5 million at June 30, 2018, compared to \$559.5 million at June 30, 2017, including an \$11.1 million decrease driven by a balance sheet reclassification of the estimated cost of inventory associated with sales returns into prepaid expenses and other current assets under the new revenue accounting standard. Excluding the effect of this classification change, consolidated inventories increased 4 percent compared to June 30, 2017.

Cash Flow

Operating cash flow for the six months ended June 30, 2018 was \$99.3 million, compared to \$157.0 million in the six months ended June 30, 2017.

Capital expenditures totaled \$29.6 million for the six months ended June 30, 2018, compared to \$24.3 million in the six months ended June 30, 2017.

As of June 30, 2018, the company had repurchased 500,290 shares of common stock for \$40.1 million, or \$80.17 per share. At June 30, 2018, approximately \$97.8 million remained available under the current stock repurchase authorization, which does not obligate the company to acquire any specific number of shares or to acquire shares over any specified period of time.

During the first six months of 2018 the company paid cash dividends of \$30.9 million.

Regular Quarterly Cash Dividend

At its regular board meeting on July 20, 2018, the board of directors authorized a regular quarterly cash dividend of \$0.22 per share, payable on August 30, 2018 to shareholders of record on August 16, 2018.

Updated Full Year 2018 Financial Outlook

All projections related to anticipated future results are forward-looking in nature and may change, perhaps significantly. Our annual net sales are weighted more heavily toward the Fall/Winter season, while operating expenses are more equally distributed throughout the year, resulting in a highly seasonal net sales and profitability pattern weighted toward the second half of the year.

Spring and Fall season advance wholesale orders typically drive a significant portion of our annual net sales and are two of several significant factors we use to formulate our full year outlook. However, among the many risks inherent in our global business, our projected full year net sales and profitability may be materially affected by unfavorable weather patterns and other factors that affect consumer demand and store traffic and lead to higher-than-anticipated order cancellations and lower reorders by our wholesale customers or lower-than-projected net sales through our DTC businesses, particularly during the fourth quarter. Projections are predicated on normal seasonal weather globally.

We are also facing macroeconomic, competitive and geopolitical uncertainties as well as foreign currency exchange rate volatility in several major markets, making it more difficult to forecast our net sales and profitability.

Our 2018 outlook assumes that current macroeconomic and market conditions in key markets do not worsen, and that global regulatory, customs and tax policies remain largely unaltered for the balance of the year. The **Tax Reform** section below contains a discussion of the effects of the TCJA on income tax expense.

In addition, the outlook is based on the company's adoption of the new revenue accounting standard, Accounting Standards Codification (ASC) Topic 606, which became effective on January 1, 2018. As required by the new guidance, the company will provide a reconciliation to the old revenue accounting guidance for the 2018 transition year in the Notes to Condensed Consolidated Financial Statements contained within the Quarterly Report on Form 10-Q.

Taking the above factors into consideration, our updated full year 2018 financial outlook anticipates:

	Full Year 2018 (U.S. Dollar)	
	GAAP	Non-GAAP*
Net sales growth	9.0% to 10.5% (prior 8.0% to 10.0%)	7.5% to 9.0% (prior 6.5% to 8.5%)
Gross margin expansion	up to 140 bps	up to 60 bps
SG&A expense deleverage	120 bps to 140 bps (prior 150 bps to 170 bps)	20 bps to 40 bps (prior 30 bps to 50 bps)
Licensing Income	up to \$15.0 million (prior up to \$14.0 million)	up to \$15.0 million (prior up to \$14.0 million)
Income from operations	\$286 to \$295 million (prior \$275 to \$285 million)	\$306 to \$315 million (prior \$299 to \$308 million)
Operating margin	10.6% to 10.8% (prior 10.3% to 10.5%)	11.5% to 11.7% (prior 11.4% to 11.5%)
Effective income tax rate	approximately 22%**	approximately 22%**
Net income	\$223 to \$230 million (prior \$213 to \$220 million)	\$239 to \$246 million (prior \$231 to \$238 million)
Diluted earnings per share	\$3.15 to \$3.25 (prior \$3.01 to \$3.11)	\$3.37 to \$3.47 (prior \$3.27 to \$3.37)

* Updated full year 2018 non-GAAP financial outlook excludes net sales of approximately \$40 million, with an offsetting increase in SG&A expenses of approximately \$40 million associated with the new revenue accounting standard, as well as Project CONNECT program expenses and discrete costs of approximately \$19 million, \$15 million net of tax, or \$0.21 per diluted share (prior \$23 million, \$18 million net of tax, or \$0.25 per diluted share).

** Our updated full year 2018 financial outlook anticipates an estimated full-year effective income tax rate of approximately 22 percent, which may be affected by further refinement of our 2017 provisional TCJA estimates, as well as changes in our geographic mix of pre-tax income and other discrete events that may occur during the year. In the first half of 2018, we incurred \$1.2 million, or \$0.02 per diluted share, in incremental provisional income tax expense related to the TCJA.

Net Sales

The company currently expects 2018 net sales growth of approximately 9.0 to 10.5 percent (prior 8.0 to 10.0 percent), compared with 2017 net sales of \$2.47 billion. The company expects non-GAAP net sales growth of approximately 7.5 to 9.0 percent (prior 6.5 to 8.5 percent) which excludes approximately \$40 million in net sales associated with the new revenue accounting standard.

Our updated full year 2018 financial outlook is further based on the expectation of non-GAAP net sales growth in the Columbia, SOREL and prAna brands and a decline in Mountain Hardwear net sales as brand repositioning continues. Other assumptions considered in our non-GAAP net sales outlook include:

- U.S. net sales growth of a high-single-digit percent, consisting of low-teens percent growth in DTC net sales and mid-single-digit percent growth in wholesale net sales.
- EMEA net sales increase of mid-teens percent (low-double-digit percent constant-currency), consisting of a mid-teens percent increase (low-double-digit percent constant-currency) in Europe-direct, and a low-teens percent increase in our EMEA distributor business.
- LAAP net sales increase of mid-single-digit percent (low-single-digit percent constant-currency), including:
 - China net sales increase of high-single-digit percent (mid-single-digit percent constant-currency);
 - Japan net sales increase of high-single-digit percent (mid-single-digit percent constant-currency);
 - Korea net sales decrease of low-single-digit percent decline (low-single-digit percent decline constant-currency); and
 - LAAP distributor net sales decline of mid-single-digit percent.
- Mid-single-digit percent net sales growth in Canada (high-single-digit percent constant-currency).

Gross Margin

The company expects full year 2018 gross margin to improve by up to 140 basis points and non-GAAP gross margin to improve by up to 60 basis points, excluding approximately \$40 million of benefit to gross profit associated with the new revenue accounting standard.

Gross margin expansion reflects:

- a benefit from changes in classification under the new revenue accounting standard;
- a higher proportion of higher margin full-price versus closeout product sales;
- favorable effects of foreign currency hedge rates; and
- a favorable channel mix with a greater proportion of higher gross margin DTC net sales.

SG&A Expenses

The company expects SG&A expenses to increase at a rate faster than net sales, resulting in approximately 120 to 140 basis points of SG&A expense deleverage (prior 150 to 170 basis points), and non-GAAP SG&A expense deleverage of approximately 20 to 40 basis points (prior 30 to 50 basis points), excluding approximately \$40 million in SG&A expenses associated with the new revenue accounting standard, and approximately \$19 million (prior \$23 million) in Project CONNECT program expenses and discrete costs.

Licensing

The company expects 2018 licensing income of up to \$15.0 million (prior \$14.0 million) based on expected performance of existing licensing partners.

Operating Income

Based on the above assumptions, the company expects 2018 operating income between approximately \$286 million and \$295 million (prior between \$275 million and \$285 million), and non-GAAP operating income between approximately \$306 million and \$315 million (prior between \$299 million and \$308 million), resulting in operating margin between approximately 10.6 and 10.8 percent (prior between 10.3 and 10.5 percent), and non-GAAP operating margin between approximately 11.5 and 11.7 percent (prior between 11.4 and 11.5 percent).

The change in revenue and expense classification under the new revenue accounting standard is expected to have an approximately 15 basis point negative effect on reported operating margin rate for 2018 but no effect on reported operating income.

Income Tax Expense

The company expects an estimated full-year effective income tax rate of approximately 22 percent, which reflects a lower U.S. federal statutory income tax rate as a result of the TCJA and which may be affected by further refinement of the company's 2017 provisional TCJA estimates as well as changes in the company's geographic mix of pre-tax income and other discrete events that may occur during the year.

The **Tax Reform** section below contains a more detailed discussion of the factors that may affect 2018 income tax expense.

Net Income

The company expects 2018 net income between approximately \$223 million and \$230 million (prior between \$213 million and \$220 million), and non-GAAP net income between approximately \$239 million and \$246 million (prior between \$231 million and \$238 million), or diluted earnings per share between approximately \$3.15 and \$3.25 (prior between \$3.01 and \$3.11), and non-GAAP diluted earnings per share between \$3.37 and \$3.47 (prior between \$3.27 and \$3.37).

Foreign Currency

Foreign currency is expected to benefit net sales growth by approximately 90 basis points versus prior expectations for a benefit of approximately 150 basis points.

Foreign currency is expected to have a favorable effect of approximately \$0.12 on full year 2018 diluted earnings per share, comprising favorable gross margin effects from foreign currency hedge rates, and to a lesser degree the translation of net income, including unfavorable effects from foreign currency translation of SG&A expenses.

Second Half 2018 Outlook

The above outlook also anticipates:

- net sales growth of mid-single-digit to high-single-digit percent in the second half of the year;
- second half operating income to be down slightly to the comparable 2017 period;
- second half net income of \$168 million to \$175 million and diluted earnings per share of \$2.38 to \$2.48;
- non-GAAP net sales growth of mid-single-digit percent in the second half of the year;
- SG&A expense deleverage in the second half of the year due to the timing of accelerated investment in our strategic priorities;
- second half non-GAAP operating income to be down slightly to the comparable 2017 period; and
- second half non-GAAP net income of \$173 million to \$180 million and diluted earnings per share of \$2.45 to \$2.55.

Third Quarter 2018 Outlook

The third quarter outlook anticipates:

- mid-single-digit percent third quarter net sales growth;
- a slight decrease in third quarter net income resulting in diluted earnings per share contraction of up to \$0.05;

- mid-single-digit percent third quarter non-GAAP net sales growth; and
- a slight decrease in third quarter non-GAAP net income resulting in diluted earnings per share contraction of up to \$0.05.

Balance Sheet and Cash Flows

Adjusting for the reclassification of the estimated cost of inventory associated with sales returns into prepaid expenses and other current assets under the new revenue accounting standard, we currently expect year end inventory growth at a rate modestly above the rate of expected net sales growth due to the decision to make opportunistic Fall 2018 inventory purchases in support of potential sales from accelerated demand creation investments.

The company expects 2018 capital expenditures of approximately \$70 million, comprised of investments in DTC expansion, information technology, project-based and maintenance capital.

The company expects 2018 operating cash flow of up to \$230 million.

Our guidance is based upon share repurchases offsetting dilution from share issuance relating to employee equity grants.

Capital Allocation

In light of increased cash balances, strong cash flow generation and our repatriation of certain balances from foreign jurisdictions, the company is providing additional insight into its priorities for use of cash.

First and foremost, the company remains committed to maintaining a strong balance sheet while utilizing cash to invest in growth opportunities for the business. We continue to believe that the lowest risk and highest return for the company is to remain focused on improving results in the assets that we already own. We will also look to return 40 to 60 percent of free cash flow, defined as operating cash flow less capital expenditures, to shareholders by increasing our dividend when appropriate and repurchasing shares in the marketplace. Finally, we have demonstrated the capacity to make and integrate acquisitions as opportunities arise.

Non-GAAP Financial Measures

With respect to our updated full year 2018 financial outlook, non-GAAP financial measures exclude net sales of approximately \$40 million, with an offsetting increase in SG&A expenses of approximately \$40 million associated with the new revenue accounting standard, as well as Project CONNECT program expenses and discrete costs of approximately \$19 million, \$15 million net of tax, or \$0.21 per diluted share (prior \$23 million, \$18 million net of tax, or \$0.25 per diluted share).

Strategic Priorities

As part of the company's commitment to driving sustainable and profitable growth and relentless improvement, senior management is focused on investment in our strategic priorities including:

- driving brand awareness and sales growth through increased, focused demand creation investments;
- enhancing consumer experience and digital capabilities in all our channels and geographies;
- expanding and improving global DTC operations with supporting processes and systems; and
- investing in our people and optimizing our organization across our portfolio of brands.

Ultimately, we expect our investments to accelerate market share capture across our brand portfolio, expand gross margin, improve SG&A expense efficiency, and drive improved operating margin.

China JV

We remain on track to conclude the purchase of the remaining 40 percent non-controlling interest in our China joint venture in early 2019, subject to various conditions, including regulatory approval in China. The consideration paid will occur in multiple steps beginning in mid-2018 and is expected to be in the range of approximately \$40 million to \$45 million based on current foreign currency exchange rates. The total consideration will include Swire

Resources Limited's ("Swire") share of the accumulated net income generated during the term of the joint venture and the initial capital contribution, as well as various other required amounts pursuant to the shareholder agreement.

The joint venture's 2017 net sales totaled approximately \$168 million, generating low-teens percent operating margin. Sales are expected to achieve high-single-digit percent growth (mid-single-digit percent constant currency) in 2018. As of December 31, 2017, the joint venture operated 86 retail store locations in China. In addition, the joint venture sells its products through brand-specific e-commerce websites in China across multiple platforms and has distribution relationships with approximately 50 wholesale dealers that operate approximately 750 Columbia-branded retail locations.

Future plans include continued investments in building the Columbia brand in China, e-commerce, and expansion of direct and dealer-operated retail locations. We intend to maintain the existing management team, staff, dealers, and distribution networks that have helped the Columbia brand flourish in China.

Our long-term partner Swire will continue to serve as the exclusive independent distributor of Columbia branded products in Hong Kong and Macau. Swire had previously operated as Columbia Sportswear's exclusive independent distributor of Columbia branded products in China from 2004 until the beginning of the joint venture in 2014.

Consumer-First Initiative ("C1")

During the second quarter of 2017, we commenced investment in our C1 initiative, which encompasses the Global Retail Platform and IT systems infrastructure to support the growth and continued development of our omnichannel capabilities. The objective of this initiative is consistent with our strategic priorities to deliver an enhanced consumer experience, and to modernize and standardize our processes and systems to enable us to better anticipate and deliver against the needs of our consumers.

This multi-year global initiative is currently in the build phase, targeting regional implementations beginning in the first half of 2019. Our updated full year 2018 financial outlook includes the SG&A expenses and capital expenditures that we anticipate incurring for this year in conjunction with this initiative.

Experience First ("X1")

During the first quarter of 2018 we commenced investment in our X1 initiative, which is designed to enhance our e-commerce systems to take advantage of the changes in consumer browsing and purchasing behavior towards mobile devices. It encompasses an upgrade of our e-commerce platforms to offer improved search, browsing, checkout, loyalty, and customer care experiences for mobile shoppers and is expected to be implemented in the first half of 2019. The project will be fully integrated with our C1 initiative and will be implemented across all of our brands.

Ongoing ERP Implementation

With the implementation of our updated global enterprise resource planning system in our Europe-direct business in June, we have now substantially completed the major phases of this global rollout.

Project CONNECT

During the second half of 2017, the company began implementation of Project CONNECT, which is aimed at aligning our resources to accelerate execution on our strategic priorities and includes initiatives to drive revenue, capture cost of sales efficiencies, generate SG&A expense savings, and improve our marketing effectiveness. The majority of Project CONNECT initiatives are being implemented throughout the business and will be part of our sustained go forward operational strategy.

As these improvements are realized, we intend to reallocate resources to our strategic priorities, including incremental demand creation spending and other investments to drive growth across our brands and distribution channels. We are realizing some financial benefits from these initiatives which are reflected in our full year 2018 financial outlook and remain confident that we can generate more meaningful financial value capture in 2019 and beyond.

In the second quarter of 2018, the company incurred Project CONNECT program expenses and discrete costs of approximately \$1.9 million (\$1.4 million net of tax), or \$0.02 per diluted share. We currently expect to incur Project CONNECT program expenses and discrete costs of approximately \$19 million in 2018.

Tax Reform

The company's accounting for the TCJA, which was recorded in the fourth quarter of 2017, remains provisional and is based upon our present interpretations, current available information and reasonable estimates of the effects of the TCJA. In the first half of 2018, we incurred additional provisional tax expense associated with the TCJA of \$1.2 million, primarily related to the issuance of additional clarifying guidance, which drove further refinement of our provisional estimates that were recorded in the fourth quarter of 2017. These provisional estimates are subject to further refinement, as additional information becomes available. Our 2018 effective tax rate of 22 percent does not incorporate any future potential provisional adjustments related to the TCJA.

Supplemental non-GAAP Financial Information

Since Columbia Sportswear Company is a global company, the comparability of its operating results reported in U.S. dollars is affected by foreign currency exchange rate fluctuations because the underlying currencies in which it transacts change in value over time compared to the U.S. dollar. To supplement financial information reported in accordance with GAAP, the company discloses constant-currency net sales information, which is a non-GAAP financial measure, to provide a framework to assess how the business performed excluding the effects of changes in the exchange rates used to translate net sales generated in foreign currencies into U.S. dollars. The company calculates constant-currency net sales by translating net sales in foreign currencies for the current period into U.S. dollars at the exchange rates that were in effect during the comparable period of the prior year. Management believes that this non-GAAP financial measure reflects an additional and useful way of viewing an aspect of our operations that, when viewed in conjunction with our GAAP results, provides a more comprehensive understanding of our business and operations. In particular, investors may find the non-GAAP measures useful by reviewing our net sales results without the volatility in foreign currency exchange rates. This non-GAAP financial measure also facilitates management's internal comparisons to our historical net sales results and comparisons to competitors' net sales results.

Additionally, this document includes references to other non-GAAP financial measures that exclude increased net sales, gross profit, and offsetting increased SG&A expenses associated with new the revenue accounting standard, as well as program expenses, discrete costs and associated tax effects related to Project CONNECT and TCJA-related income tax expense. The related tax effects of program expenses and discrete costs related to Project CONNECT were calculated using the respective statutory tax rates for applicable jurisdictions. Management believes that these non-GAAP financial measures enable useful and meaningful comparisons of our operating performance from period to period because they exclude the effects of the aforementioned items above that may not be indicative of our core operating results.

These non-GAAP financial measures, including constant-currency net sales, should be viewed in addition to, and not in lieu of or superior to, our financial measures calculated in accordance with GAAP. The company provides a reconciliation of non-GAAP measures to the most directly comparable financial measure calculated in accordance with GAAP. See "Supplemental Financial Information" tables included in the earnings release announcing second quarter 2018 results and updated full year 2018 financial outlook located on the investor relations section of the company's website at <http://investor.columbia.com/results.cfm>. The non-GAAP financial measures and constant-currency information presented may not be comparable to similarly entitled measures reported by other companies.

Third Quarter 2018 Reporting Schedule

Columbia Sportswear Company plans to report third quarter and year to date 2018 financial results on Thursday, October 25, 2018 at approximately 4:00 p.m. ET. Following issuance of the earnings release, a commentary reviewing the company's third quarter and year to date 2018 financial results will be furnished to the SEC on Form 8-K and published on the investor relations section of the company's website at <http://investor.columbia.com/results.cfm>. A public webcast of Columbia's earnings conference call will follow at 5:00 p.m. ET at <http://www.columbia.com>.

Forward-Looking Statements

This document contains forward-looking statements within the meaning of the federal securities laws, including statements regarding anticipated results, net sales and net sales growth, gross margin, operating expenses, licensing income, operating income, operating margins, net income, earnings per share, income tax rates and the effects of tax reform (including the TCJA), SG&A expenses, including deleverage and SG&A expenses associated with the new revenue accounting standard, and Project CONNECT program expenses and discrete costs, projected growth or decline in specific geographies, channels, products, and brands, the effect of changes associated with the new revenue accounting standard on our financial results, the effects of foreign currency, inventory growth, share repurchase activity and increased dividends, capital expenditures, investment activity, including in our C1 and X1 initiatives, operating cash flow, the performance of our China joint venture and investments in our business in China, including the planned buyout of the 40 percent non-controlling interest in the joint venture and our ability to adapt our business and realize the anticipated benefits of our investments in our strategic priorities. Forward-looking statements often use words such as "will", "anticipate", "estimate", "expect", "should", "may" and other words and terms of similar meaning or reference future dates. The company's expectations, beliefs and projections are expressed in good faith and are believed to have a reasonable basis; however, each forward-looking statement involves a number of risks and uncertainties, including those set forth in this document, those described in the company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q under the heading "Risk Factors," and those that have been or may be described in other reports filed by the company, including reports on Form 8-K. Potential risks and uncertainties that may affect our future revenues, earnings and performance and could cause the actual results of operations or financial condition of the company to differ materially from the anticipated results expressed or implied by forward-looking statements in this document include: loss of key customer accounts; our ability to effectively implement IT infrastructure and business process initiatives and to maintain the strength and security of our IT systems; the effects of unseasonable weather, including global climate change; trends affecting consumer traffic and spending in DTC; our ability to implement our growth strategy; unfavorable economic conditions generally, the financial health of our customers and changes in the level of consumer spending, apparel preferences and fashion trends; changes in international, federal or state tax, labor and other laws and regulations that affect our business, including changes in corporate tax rates, tariffs, international trade policy, or increasing wage rates; the effects of the TCJA, including related changes to our tax obligations and effective tax rate in future periods, as well as future changes to related provisional tax expense recorded in 2017; volatility in global production and transportation costs and capacity; risks inherent in doing business in foreign markets, including fluctuations in currency exchange rates; our ability to attract and retain key personnel; risks associated with our joint venture, including the planned buyout of the non-controlling 40 percent interest in the joint venture; higher than expected rates of order cancellations; increased consolidation of our wholesale customers; our ability to effectively source and deliver our products to customers in a timely manner; our dependence on independent manufacturers and suppliers and our ability to source finished products and components at competitive prices from them; the effectiveness of our sales and marketing efforts; intense competition in the industry; business disruptions and acts of terrorism, cyber-attacks or military activities around the globe; our ability to establish and protect our intellectual property; the seasonality of our business; and our ability to develop innovative products. The company cautions that forward-looking statements are inherently less reliable than historical information. The company does not undertake any duty to update any of the forward-looking statements after the date of this document to conform them to actual results or to reflect changes in events, circumstances or its expectations. New factors emerge from time to time and it is not possible for the company to predict or assess the effects of all such factors or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

End

©2018 Columbia Sportswear Company