

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended August 1, 2021

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**For the transition period from _____ to _____
Commission file number 001-33608**lululemon athletica inc.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

20-3842867

(I.R.S. Employer Identification No.)

1818 Cornwall Avenue, Vancouver, British Columbia V6J 1C7

(Address of principal executive offices)

Registrant's telephone number, including area code:

604-732-6124

Former name, former address and former fiscal year, if changed since last report:

N/A

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.005 per share	LULU	Nasdaq Global Select Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

At September 1, 2021, there were 124,610,529 shares of the registrant's common stock, par value \$0.005 per share, outstanding.

Exchangeable and Special Voting Shares:

At September 1, 2021, there were outstanding 5,203,012 exchangeable shares of Lulu Canadian Holding, Inc., a wholly-owned subsidiary of the registrant. Exchangeable shares are exchangeable for an equal number of shares of the registrant's common stock.

In addition, at September 1, 2021, the registrant had outstanding 5,203,012 shares of special voting stock, through which the holders of exchangeable shares of Lulu Canadian Holding, Inc. may exercise their voting rights with respect to the registrant. The special voting stock and the registrant's common stock generally vote together as a single class on all matters on which the common stock is entitled to vote.

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

lululemon athletica inc.

CONSOLIDATED BALANCE SHEETS

(Unaudited; Amounts in thousands, except per share amounts)

	August 1, 2021	January 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,170,041	\$ 1,150,517
Accounts receivable	56,150	62,399
Inventories	789,836	647,230
Prepaid and receivable income taxes	117,807	139,126
Prepaid expenses and other current assets	141,473	125,107
	2,275,307	2,124,379
Property and equipment, net	806,387	745,687
Right-of-use lease assets	729,621	734,835
Goodwill	387,024	386,877
Intangible assets, net	75,690	80,080
Deferred income tax assets	6,564	6,731
Other non-current assets	124,505	106,626
	\$ 4,405,098	\$ 4,185,215
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 203,546	\$ 172,246
Accrued inventory liabilities	33,316	14,956
Other accrued liabilities	269,024	211,911
Accrued compensation and related expenses	150,331	130,171
Current lease liabilities	150,087	166,091
Current income taxes payable	13,743	8,357
Unredeemed gift card liability	137,021	155,848
Other current liabilities	24,286	23,598
	981,354	883,178
Non-current lease liabilities	644,734	632,590
Non-current income taxes payable	38,073	43,150
Deferred income tax liabilities	60,010	58,755
Other non-current liabilities	9,761	8,976
	1,733,932	1,626,649
Commitments and contingencies		
Stockholders' equity		
Undesignated preferred stock, \$0.01 par value: 5,000 shares authorized; none issued and outstanding	—	—
Exchangeable stock, no par value: 60,000 shares authorized; 5,203 and 5,203 issued and outstanding	—	—
Special voting stock, \$0.000005 par value: 60,000 shares authorized; 5,203 and 5,203 issued and outstanding	—	—
Common stock, \$0.005 par value: 400,000 shares authorized; 124,644 and 125,150 issued and outstanding	623	626
Additional paid-in capital	381,737	388,667
Retained earnings	2,445,845	2,346,428
Accumulated other comprehensive loss	(157,039)	(177,155)
	2,671,166	2,558,566
	\$ 4,405,098	\$ 4,185,215

See accompanying notes to the unaudited interim consolidated financial statements

lululemon athletica inc.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited; Amounts in thousands, except per share amounts)

	Quarter Ended		Two Quarters Ended	
	August 1, 2021	August 2, 2020	August 1, 2021	August 2, 2020
Net revenue	\$ 1,450,618	\$ 902,942	\$ 2,677,083	\$ 1,554,904
Cost of goods sold	607,932	413,441	1,134,083	731,001
Gross profit	842,686	489,501	1,543,000	823,903
Selling, general and administrative expenses	541,317	352,881	1,037,951	652,464
Amortization of intangible assets	2,195	747	4,390	770
Acquisition-related expenses	8,143	11,464	15,807	13,509
Income from operations	291,031	124,409	484,852	157,160
Other income (expense), net	96	(344)	323	830
Income before income tax expense	291,127	124,065	485,175	157,990
Income tax expense	83,053	37,264	132,145	42,557
Net income	\$ 208,074	\$ 86,801	\$ 353,030	\$ 115,433
Other comprehensive income (loss):				
Foreign currency translation adjustment	(23,520)	54,300	20,116	(6,304)
Comprehensive income	\$ 184,554	\$ 141,101	\$ 373,146	\$ 109,129
Basic earnings per share	\$ 1.60	\$ 0.67	\$ 2.71	\$ 0.89
Diluted earnings per share	\$ 1.59	\$ 0.66	\$ 2.70	\$ 0.88
Basic weighted-average number of shares outstanding	130,007	130,245	130,187	130,248
Diluted weighted-average number of shares outstanding	130,490	130,799	130,742	130,802

See accompanying notes to the unaudited interim consolidated financial statements

lululemon athletica inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited; Amounts in thousands)

	Quarter Ended August 1, 2021								
	Exchangeable Stock	Special Voting Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Shares	Par Value	Shares	Par Value				
Balance as of May 2, 2021	5,203	5,203	\$ —	125,069	\$ 625	\$ 364,743	\$ 2,408,006	\$ (133,519)	\$2,639,855
Net income							208,074		208,074
Foreign currency translation adjustment								(23,520)	(23,520)
Stock-based compensation expense						15,289			15,289
Common stock issued upon settlement of stock-based compensation				88	—	5,218			5,218
Shares withheld related to net share settlement of stock-based compensation				(8)	—	(2,668)			(2,668)
Repurchase of common stock				(505)	(2)	(845)	(170,235)		(171,082)
Balance as of August 1, 2021	5,203	5,203	\$ —	124,644	\$ 623	\$ 381,737	\$ 2,445,845	\$ (157,039)	\$2,671,166

	Quarter Ended August 2, 2020								
	Exchangeable Stock	Special Voting Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Shares	Par Value	Shares	Par Value				
Balance as of May 3, 2020	5,482	5,482	\$ —	124,717	\$ 624	\$ 334,201	\$ 1,786,147	\$ (285,185)	\$1,835,787
Net income							86,801		86,801
Foreign currency translation adjustment								54,300	54,300
Common stock issued upon exchange of exchangeable shares	(89)	(89)	—	89	—	—			—
Stock-based compensation expense						15,784			15,784
Common stock issued upon settlement of stock-based compensation				114	—	9,328			9,328
Shares withheld related to net share settlement of stock-based compensation				(3)	1	(899)			(898)
Balance as of August 2, 2020	5,393	5,393	\$ —	124,917	\$ 625	\$ 358,414	\$ 1,872,948	\$ (230,885)	\$2,001,102

	Two Quarters Ended August 1, 2021								
	Exchangeable Stock	Special Voting Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Shares	Par Value	Shares	Par Value				
Balance as of January 31, 2021	5,203	5,203	\$ —	125,150	\$ 626	\$ 388,667	\$ 2,346,428	\$ (177,155)	\$2,558,566
Net income							353,030		353,030
Foreign currency translation adjustment								20,116	20,116
Stock-based compensation expense						30,221			30,221
Common stock issued upon settlement of stock-based compensation				412	2	9,711			9,713
Shares withheld related to net share settlement of stock-based compensation				(143)	(1)	(45,566)			(45,567)
Repurchase of common stock				(775)	(4)	(1,296)	(253,613)		(254,913)
Balance as of August 1, 2021	5,203	5,203	\$ —	124,644	\$ 623	\$ 381,737	\$ 2,445,845	\$ (157,039)	\$2,671,166

	Two Quarters Ended August 2, 2020								
	Exchangeable Stock	Special Voting Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Shares	Par Value	Shares	Par Value				
Balance as of February 2, 2020	6,227	6,227	\$ —	124,122	\$ 621	\$ 355,541	\$ 1,820,637	\$ (224,581)	\$1,952,218
Net income							115,433		115,433
Foreign currency translation adjustment								(6,304)	(6,304)
Common stock issued upon exchange of exchangeable shares	(834)	(834)	—	834	4	(4)			—
Stock-based compensation expense						21,912			21,912
Common stock issued upon settlement of stock-based compensation				485	2	12,461			12,463
Shares withheld related to net share settlement of stock-based compensation				(155)	—	(30,957)			(30,957)
Repurchase of common stock				(369)	(2)	(539)	(63,122)		(63,663)
Balance as of August 2, 2020	5,393	5,393	\$ —	124,917	\$ 625	\$ 358,414	\$ 1,872,948	\$ (230,885)	\$2,001,102

See accompanying notes to the unaudited interim consolidated financial statements

lululemon athletica inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; Amounts in thousands)

	Two Quarters Ended	
	August 1, 2021	August 2, 2020
Cash flows from operating activities		
Net income	\$ 353,030	\$ 115,433
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	104,123	84,176
Stock-based compensation expense	30,221	21,912
Settlement of derivatives not designated in a hedging relationship	45,010	(13,538)
Changes in operating assets and liabilities:		
Inventories	(137,364)	(138,194)
Prepaid and receivable income taxes	21,763	(39,860)
Prepaid expenses and other current assets	(8,337)	(56,381)
Other non-current assets	(5,487)	(20,430)
Accounts payable	28,232	35,967
Accrued inventory liabilities	18,091	25,322
Other accrued liabilities	47,403	53,868
Accrued compensation and related expenses	19,260	(49,037)
Current and non-current income taxes payable	456	43,926
Unredeemed gift card liability	(19,377)	(13,848)
Right-of-use lease assets and current and non-current lease liabilities	1,265	7,388
Other current and non-current liabilities	1,483	3,358
Net cash provided by operating activities	499,772	60,062
Cash flows from investing activities		
Purchase of property and equipment	(144,494)	(104,723)
Settlement of net investment hedges	(46,999)	10,981
Acquisition, net of cash acquired	—	(452,581)
Other investing activities	(10,000)	1,000
Net cash used in investing activities	(201,493)	(545,323)
Cash flows from financing activities		
Proceeds from settlement of stock-based compensation	9,713	12,463
Shares withheld related to net share settlement of stock-based compensation	(45,567)	(30,957)
Repurchase of common stock	(254,913)	(63,663)
Net cash used in financing activities	(290,767)	(82,157)
Effect of foreign currency exchange rate changes on cash and cash equivalents	12,012	(3,089)
Increase (decrease) in cash and cash equivalents	19,524	(570,507)
Cash and cash equivalents, beginning of period	\$ 1,150,517	\$ 1,093,505
Cash and cash equivalents, end of period	\$ 1,170,041	\$ 522,998

See accompanying notes to the unaudited interim consolidated financial statements

lululemon athletica inc.
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STATEMENTS

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lululemon athletica inc.
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS

Note 1. Nature of Operations and Basis of Presentation

Nature of operations

lululemon athletica inc., a Delaware corporation, ("lululemon" and, together with its subsidiaries unless the context otherwise requires, the "Company") is engaged in the design, distribution, and retail of healthy lifestyle inspired athletic apparel and accessories, which are sold through a chain of company-operated stores, direct to consumer through e-commerce, outlets, sales from temporary locations, sales to wholesale accounts, and license and supply arrangements. The Company operates stores in the United States, Canada, the People's Republic of China ("PRC"), Australia, the United Kingdom, South Korea, Germany, New Zealand, Japan, Singapore, France, Malaysia, Sweden, Ireland, the Netherlands, Norway, and Switzerland. There were 534 and 521 company-operated stores as of August 1, 2021 and January 31, 2021, respectively.

On July 7, 2020, the Company acquired Curiouser Products Inc., dba MIRROR, ("MIRROR") which has been consolidated from the date of acquisition. MIRROR generates net revenue from the sale of in-home fitness equipment and associated content subscriptions. Please refer to Note 3. Acquisition for further information.

COVID-19 Pandemic

The outbreak of a novel strain of coronavirus ("COVID-19") has caused governments and public health officials to impose restrictions and recommend precautions to mitigate the spread of the virus. The Company temporarily closed its retail locations for periods of time during the first two quarters of fiscal 2020. While most of the Company's retail locations were open throughout the first two quarters of fiscal 2021, certain locations were temporarily closed based on government and health authority guidance in those markets, including in parts of Canada, Asia Pacific, and Europe.

In accordance with relevant government and health authority guidance, the Company continues to operate with necessary precautionary measures in place at its retail locations and distribution centers.

During the second quarter and first two quarters of fiscal 2020, the Company recognized \$21.2 million and \$35.5 million, respectively, of government payroll subsidies as a reduction in selling, general, and administrative expenses. These subsidies partially offset the wages paid to employees while its retail locations were temporarily closed due to COVID-19. The Company did not recognize any payroll subsidies in the first two quarters of fiscal 2021.

Basis of presentation

The unaudited interim consolidated financial statements as of August 1, 2021 and for the quarters and two quarters ended August 1, 2021 and August 2, 2020 are presented in U.S. dollars and have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission ("SEC"). The financial information is presented in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and, accordingly, does not include all of the information and footnotes required by GAAP for complete financial statements. The financial information as of January 31, 2021 is derived from the Company's audited consolidated financial statements and related notes for the fiscal year ended January 31, 2021, which are included in Item 8 in the Company's fiscal 2020 Annual Report on Form 10-K filed with the SEC on March 30, 2021. These unaudited interim consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. These unaudited interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related notes included in Item 8 in the Company's fiscal 2020 Annual Report on Form 10-K. Note 2. Recent Accounting Pronouncements sets out the impact of recent accounting pronouncements.

The Company's fiscal year ends on the Sunday closest to January 31 of the following year, typically resulting in a 52-week year, but occasionally giving rise to an additional week, resulting in a 53-week year. Fiscal 2021 will end on January 30, 2022 and will be a 52-week year. Fiscal 2020 was a 52-week year and ended on January 31, 2021. Fiscal 2021 and fiscal 2020 are referred to as "2021," and "2020," respectively. The first two quarters of 2021 and 2020 ended on August 1, 2021 and August 2, 2020, respectively.

The Company's business is affected by the pattern of seasonality common to most retail apparel businesses. Historically, the Company has recognized a significant portion of its operating profit in the fourth fiscal quarter of each year as a result of increased net revenue during the holiday season.

Note 2. Recent Accounting Pronouncements

Recently adopted accounting pronouncements

In December 2019, the FASB issued guidance on ASC 740, Income Taxes. The amendments in this update simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC 740. The amendments also improve consistent application and make simplifications in other areas of this topic by clarifying and amending existing guidance. The Company adopted this update during the first quarter of 2021 and it did not have a material impact on the Company's consolidated financial statements.

Recently issued accounting pronouncements

The Company considers the applicability and impact of all Accounting Standard Updates ("ASUs"). Recently issued ASUs were assessed and determined to be either not applicable or are expected to have minimal impact on its consolidated financial position or results of operations.

Note 3. Acquisition

On July 7, 2020, the Company acquired all of the outstanding shares of MIRROR, an in-home fitness company with an interactive workout platform that features live and on-demand classes. The results of operations, financial position, and cash flows of MIRROR have been included in the Company's consolidated financial statements since the date of acquisition. The fair value of the consideration paid, net of cash acquired, was \$452.6 million. This resulted in the recognition of intangible assets of \$85.0 million and goodwill of \$362.5 million. The purchase price allocation was finalized as of January 31, 2021 with no measurement period adjustments.

Acquisition-related expenses

In connection with the acquisition, the Company recognized certain acquisition-related expenses which are expensed as incurred. These expenses are recognized within acquisition-related expenses in the consolidated statements of operations include the following amounts:

- transaction and integration costs, including fees for advisory and professional services incurred as part of the acquisition and integration costs subsequent to the acquisition;
- acquisition-related compensation, including the partial acceleration of vesting of certain stock options, and amounts due to selling shareholders that are contingent upon continuing employment; and
- gain recognized on the Company's existing investment in the acquiree as of the acquisition date.

The following table summarizes the acquisition-related expenses recognized:

	Second Quarter		First Two Quarters	
	2021	2020	2021	2020
<i>(in thousands)</i>				
Acquisition-related expenses:				
Transaction and integration costs	\$ 1,035	\$ 7,201	\$ 1,531	\$ 9,246
Gain on existing investment	—	(782)	—	(782)
Acquisition-related compensation	7,108	5,045	14,276	5,045
	\$ 8,143	\$ 11,464	\$ 15,807	\$ 13,509
Income tax effects of acquisition-related expenses	\$ (434)	\$ (1,967)	\$ (806)	\$ (1,967)

Note 4. Revolving Credit Facilities

North America revolving credit facility

During 2016, the Company obtained a \$150.0 million committed and unsecured five-year revolving credit facility with major financial institutions. During 2018, the Company amended the credit agreement to provide for:

- i. an increase in the aggregate commitments under the revolving credit facility to \$400.0 million, with an increase of the sub-limits for the issuance of letters of credit and extensions of swing line loans to \$50.0 million for each;
- ii. an increase in the option, subject to certain conditions, to request increases in commitments from \$400.0 million to \$600.0 million; and
- iii. an extension in the maturity of the facility from December 15, 2021 to June 6, 2023. Borrowings under the facility may be made in U.S. Dollars, Euros, Canadian Dollars, and in other currencies, subject to the lenders' approval.

As of August 1, 2021, aside from letters of credit of \$2.8 million, there were no other borrowings outstanding under this facility.

Borrowings under the facility bear interest at a rate equal to, at the Company's option, either (a) rates based on deposits on the interbank market for U.S. Dollars or the applicable currency in which the borrowings are made ("LIBOR") or (b) an alternate base rate, plus, an applicable margin determined by reference to a pricing grid, based on the ratio of indebtedness to earnings before interest, tax, depreciation, amortization, and rent ("EBITDAR") and ranges between 1.00%-1.50% for LIBOR loans and 0.00%-0.50% for alternate base rate loans. Additionally, a commitment fee of between 0.10%-0.20% is payable on the average unused amounts under the revolving credit facility, and fees of 1.00%-1.50% are payable on unused letters of credit.

The credit agreement contains negative covenants that, among other things and subject to certain exceptions, limit the ability of the Company's subsidiaries to incur indebtedness, incur liens, undergo fundamental changes, make dispositions of all or substantially all of their assets, alter their businesses and enter into agreements limiting subsidiary dividends and distributions.

The Company is also required to maintain a consolidated rent-adjusted leverage ratio of not greater than 3.5:1 and to maintain the ratio of consolidated EBITDAR to consolidated interest charges (plus rent) below 2:1. The credit agreement also contains certain customary representations, warranties, affirmative covenants, and events of default (including, among others, an event of default upon the occurrence of a change of control). As of August 1, 2021, the Company was in compliance with the covenants of the credit facility.

Mainland China revolving credit facility

In December 2019, the Company entered into an uncommitted and unsecured 130.0 million Chinese Yuan revolving credit facility with terms that are reviewed on an annual basis. The credit facility was increased to 230.0 million Chinese Yuan during 2020. It is comprised of a revolving loan of up to 200.0 million Chinese Yuan and a financial guarantee facility of up to 30.0 million Chinese Yuan, or its equivalent in another currency. Loans are available for a period not to exceed 12 months, at an interest rate equal to the loan prime rate plus a spread of 0.5175%. The Company is required to follow certain covenants. As of August 1, 2021, the Company was in compliance with the covenant and, aside from letters of credit of 1.3 million Chinese Yuan, there were no borrowings or guarantees outstanding under this credit facility.

Note 5. Stock-Based Compensation and Benefit Plans

Stock-based compensation plans

The Company's eligible employees participate in various stock-based compensation plans, provided directly by the Company.

Stock-based compensation expense charged to income for the plans was \$33.6 million and \$24.9 million for the first two quarters of 2021 and 2020, respectively. Total unrecognized compensation cost for all stock-based compensation plans was \$117.1 million as of August 1, 2021, which is expected to be recognized over a weighted-average period of 2.3 years.

A summary of the balances of the Company's stock-based compensation plans as of August 1, 2021, and changes during the first two quarters then ended, is presented below:

	Stock Options		Performance-Based Restricted Stock Units		Restricted Shares		Restricted Stock Units		Restricted Stock Units (Liability Accounting)	
	Number	Weighted -Average Exercise Price	Number	Weighted -Average Grant Date Fair Value	Number	Weighted -Average Grant Date Fair Value	Number	Weighted -Average Grant Date Fair Value	Number	Weighted -Average Fair Value
<i>(In thousands, except per share amounts)</i>										
Balance as of January 31, 2021	804	\$ 139.27	199	\$ 149.20	4	\$ 299.09	275	\$ 166.50	15	\$ 328.68
Granted	188	307.34	135	180.65	4	327.22	96	308.78	—	—
Exercised/released	104	93.59	166	100.89	4	299.09	138	135.08	—	—
Forfeited/expired	20	189.53	3	212.67	—	—	12	230.55	—	—
Balance as of August 1, 2021	868	\$ 180.00	165	\$ 222.30	4	\$ 327.22	221	\$ 244.47	15	\$ 400.17
Exercisable as of August 1, 2021	301	\$ 124.41								

The Company's performance-based restricted stock units are awarded to eligible employees and entitle the grantee to receive a maximum of two shares of common stock per performance-based restricted stock unit if the Company achieves specified performance goals and the grantee remains employed during the vesting period. The fair value of performance-based restricted stock units is based on the closing price of the Company's common stock on the award date. Expense for performance-based restricted stock units is recognized when it is probable that the performance goal will be achieved.

The grant date fair value of the restricted shares and restricted stock units is based on the closing price of the Company's common stock on the award date. Restricted stock units that are settled in cash or common stock at the election of the employee are remeasured to fair value at the end of each reporting period until settlement. This fair value is based on the closing price of the Company's common stock on the last business day before each period end.

The grant date fair value of each stock option granted is estimated on the date of grant using the Black-Scholes model. The assumptions used to calculate the fair value of the options granted are evaluated and revised, as necessary, to reflect market conditions and the Company's historical experience. The expected term of the options is based upon the historical experience of similar awards, giving consideration to expectations of future employee behavior. Expected volatility is based upon the historical volatility of the Company's common stock for the period corresponding with the expected term of the options. The risk-free interest rate is based on the U.S. Treasury yield curve for the period corresponding with the expected term of the options. The following are weighted averages of the assumptions that were used in calculating the fair value of stock options granted during the first two quarters of 2021:

	First Two Quarters
	2021
Expected term	3.75 years
Expected volatility	39.32 %
Risk-free interest rate	0.50 %
Dividend yield	— %

Employee share purchase plan

The Company's board of directors and stockholders approved the Company's Employee Share Purchase Plan ("ESPP") in September 2007. Contributions are made by eligible employees, subject to certain limits defined in the ESPP, and the Company matches one-third of the contribution. The maximum number of shares authorized to be purchased under the ESPP is 6.0 million shares. All shares purchased under the ESPP are purchased in the open market. During the second quarter of 2021, there were 16.2 thousand shares purchased.

Defined contribution pension plans

The Company offers defined contribution pension plans to its eligible employees. Participating employees may elect to defer and contribute a portion of their eligible compensation to a plan up to limits stated in the plan documents, not to exceed the dollar amounts set by applicable laws. The Company matches 50% to 75% of the contribution depending on the

participant's length of service, and the contribution is subject to a two year vesting period. The Company's net expense for the defined contribution plans was \$5.8 million and \$4.5 million in the first two quarters of 2021 and 2020, respectively.

Note 6. Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are made using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value:

- Level 1 - defined as observable inputs such as quoted prices in active markets;
- Level 2 - defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities measured at fair value on a recurring basis

The fair value measurement is categorized in its entirety by reference to its lowest level of significant input. As of August 1, 2021 and January 31, 2021, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis:

	August 1, 2021	Level 1	Level 2	Level 3	Balance Sheet Classification
<i>(In thousands)</i>					
Money market funds	\$ 605,059	\$ 605,059	\$ —	\$ —	Cash and cash equivalents
Term deposits	220,572	—	220,572	—	Cash and cash equivalents
Forward currency contract assets	13,956	—	13,956	—	Prepaid expenses and other current assets
Forward currency contract liabilities	16,176	—	16,176	—	Other current liabilities

	January 31, 2021	Level 1	Level 2	Level 3	Balance Sheet Classification
<i>(In thousands)</i>					
Money market funds	\$ 671,817	\$ 671,817	\$ —	\$ —	Cash and cash equivalents
Term deposits	183,015	—	183,015	—	Cash and cash equivalents
Forward currency contract assets	17,364	—	17,364	—	Prepaid expenses and other current assets
Forward currency contract liabilities	18,767	—	18,767	—	Other current liabilities

The Company records cash, accounts receivable, accounts payable, and accrued liabilities at cost. The carrying values of these instruments approximate their fair value due to their short-term maturities.

The Company has short-term, highly liquid investments classified as cash equivalents, which are invested in money market funds, Treasury bills, and term deposits. The Company records cash equivalents at their original purchase prices plus interest that has accrued at the stated rate.

The fair values of the forward currency contract assets and liabilities are determined using observable Level 2 inputs, including foreign currency spot exchange rates, forward pricing curves, and interest rates. The fair values consider the credit risk of the Company and its counterparties. The Company's Master International Swap Dealers Association, Inc., Agreements and other similar arrangements allow net settlements under certain conditions. However, the Company records all derivatives on its consolidated balance sheets at fair value and does not offset derivative assets and liabilities.

Note 7. Derivative Financial Instruments

Foreign currency exchange risk

The Company is exposed to risks associated with changes in foreign currency exchange rates and uses derivative financial instruments to manage its exposure to certain of these foreign currency exchange rate risks. The Company does not enter into derivative contracts for speculative or trading purposes.

The Company currently hedges against changes in the Canadian dollar and Chinese Yuan to the U.S. dollar exchange rate and changes in the Euro and Australian dollar to the Canadian dollar exchange rate using forward currency contracts.

Net investment hedges

The Company is exposed to foreign currency exchange gains and losses which arise on translation of its international subsidiaries' balance sheets into U.S. dollars. These gains and losses are recorded as a foreign currency translation adjustment in accumulated other comprehensive income or loss within stockholders' equity.

The Company holds a significant portion of its assets in Canada and enters into forward currency contracts designed to hedge a portion of the foreign currency exposure that arises on translation of a Canadian subsidiary into U.S. dollars. These forward currency contracts are designated as net investment hedges. The Company assesses hedge effectiveness based on changes in forward rates. The Company recorded no ineffectiveness from net investment hedges during the first two quarters of 2021.

The Company classifies the cash flows at settlement of its net investment hedges within investing activities in the consolidated statements of cash flows.

Derivatives not designated as hedging instruments

The Company is exposed to gains and losses arising from changes in foreign currency exchange rates associated with transactions which are undertaken by its subsidiaries in currencies other than their functional currency. Such transactions include intercompany transactions and inventory purchases. These transactions result in the recognition of certain foreign currency denominated monetary assets and liabilities which are remeasured to the quarter-end or settlement date foreign currency exchange rate. The resulting foreign currency gains and losses are recorded in selling, general and administrative expenses.

During the first two quarters of 2021, the Company entered into certain forward currency contracts designed to economically hedge the foreign currency exchange revaluation gains and losses that are recognized by its Canadian and Chinese subsidiaries on specific monetary assets and liabilities denominated in currencies other than the functional currency of the entity. The Company has not applied hedge accounting to these instruments and the change in fair value of these derivatives is recorded within selling, general and administrative expenses.

The Company classifies the cash flows at settlement of its forward currency contracts which are not designated in hedging relationships within operating activities in the consolidated statements of cash flows.

Quantitative disclosures about derivative financial instruments

The Company presents its derivative assets and derivative liabilities at their gross fair values within prepaid expenses and other current assets and other current liabilities on the consolidated balance sheets. However, the Company's Master International Swap Dealers Association, Inc., Agreements and other similar arrangements allow net settlements under certain conditions. As of August 1, 2021, there were derivative assets of \$14.0 million and derivative liabilities of \$16.2 million subject to enforceable netting arrangements.

The notional amounts and fair values of forward currency contracts were as follows:

	August 1, 2021			January 31, 2021		
	Gross Notional	Assets	Liabilities	Gross Notional	Assets	Liabilities
<i>(In thousands)</i>						
Derivatives designated as net investment hedges:						
Forward currency contracts	\$ 1,010,000	\$ 13,845	\$ —	\$ 985,000	\$ —	\$ 18,099
Derivatives not designated in a hedging relationship:						
Forward currency contracts	1,125,505	111	16,176	1,055,000	17,364	668
Net derivatives recognized on consolidated balance sheets:						
Forward currency contracts		\$ 13,956	\$ 16,176		\$ 17,364	\$ 18,767

The forward currency contracts designated as net investment hedges outstanding as of August 1, 2021 mature on different dates between August 2021 and March 2022.

The forward currency contracts not designated in a hedging relationship outstanding as of August 1, 2021 mature on different dates between August 2021 and March 2022.

The pre-tax gains and losses on foreign currency exchange forward contracts recorded in accumulated other comprehensive income or loss were as follows:

	Second Quarter		First Two Quarters	
	2021	2020	2021	2020
<i>(In thousands)</i>				
Gains (losses) recognized in foreign currency translation adjustment:				
Derivatives designated as net investment hedges	\$ 16,930	\$ (24,728)	\$ (15,056)	\$ 3,528

No gains or losses have been reclassified from accumulated other comprehensive income or loss into net income for derivative financial instruments in a net investment hedging relationship, as the Company has not sold or liquidated (or substantially liquidated) its hedged subsidiary.

The pre-tax net foreign currency exchange and derivative gains and losses recorded in the consolidated statement of operations were as follows:

	Second Quarter		First Two Quarters	
	2021	2020	2021	2020
<i>(In thousands)</i>				
Gains (losses) recognized in selling, general and administrative expenses:				
Foreign currency exchange gains (losses)	\$ 13,404	\$ (23,867)	\$ (20,135)	\$ 3,874
Derivatives not designated in a hedging relationship	(18,344)	21,574	12,247	(5,946)
Net foreign currency exchange and derivative gains (losses)	\$ (4,940)	\$ (2,293)	\$ (7,888)	\$ (2,072)

Credit risk

The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to the forward currency contracts. The credit risk amount is the Company's unrealized gains on its derivative instruments, based on foreign currency rates at the time of nonperformance.

The Company's forward currency contracts are entered into with large, reputable financial institutions that are monitored by the Company for counterparty risk.

The Company's derivative contracts contain certain credit risk-related contingent features. Under certain circumstances, including an event of default, bankruptcy, termination, and cross default under the Company's revolving credit facility, the Company may be required to make immediate payment for outstanding liabilities under its derivative contracts.

Note 8. Earnings Per Share

The details of the computation of basic and diluted earnings per share are as follows:

	Second Quarter		First Two Quarters	
	2021	2020	2021	2020
<i>(In thousands, except per share amounts)</i>				
Net income	\$ 208,074	\$ 86,801	\$ 353,030	\$ 115,433
Basic weighted-average number of shares outstanding	130,007	130,245	130,187	130,248
Assumed conversion of dilutive stock options and awards	483	554	555	554
Diluted weighted-average number of shares outstanding	130,490	130,799	130,742	130,802
Basic earnings per share	\$ 1.60	\$ 0.67	\$ 2.71	\$ 0.89
Diluted earnings per share	\$ 1.59	\$ 0.66	\$ 2.70	\$ 0.88

The Company's calculation of weighted-average shares includes the common stock of the Company as well as the exchangeable shares. Exchangeable shares are the equivalent of common shares in all material respects. All classes of stock have, in effect, the same rights and share equally in undistributed net income. For each of the first two quarters of 2021 and 2020, 0.1 million stock options and awards were anti-dilutive to earnings per share and therefore have been excluded from the computation of diluted earnings per share.

On January 31, 2019, the Company's board of directors approved a stock repurchase program for up to \$500.0 million of the Company's common shares on the open market or in privately negotiated transactions. On December 1, 2020, the Company's board of directors approved an increase in the remaining authorization of the existing stock repurchase program from \$263.6 million to \$500.0 million. The repurchase plan has no time limit and does not require the repurchase of a minimum number of shares. Common shares repurchased on the open market are at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934. The timing and actual number of common shares to be repurchased will depend upon market conditions, eligibility to trade, and other factors, in accordance with Securities and Exchange Commission requirements. As of August 1, 2021, the remaining value of shares available to be repurchased under this program was \$245.1 million.

During the first two quarters of 2021 and 2020, 0.8 million and 0.4 million shares, respectively, were repurchased under the program at a total cost of \$254.9 million and \$63.7 million, respectively.

Subsequent to August 1, 2021, and up to September 1, 2021, 48.0 thousand shares were repurchased at a total cost of \$19.4 million.

Note 9. Supplementary Financial Information

A summary of certain consolidated balance sheet accounts is as follows:

	August 1, 2021	January 31, 2021
<i>(In thousands)</i>		
Inventories:		
Inventories, at cost	\$ 830,926	\$ 678,200
Provision to reduce inventories to net realizable value	(41,090)	(30,970)
	\$ 789,836	\$ 647,230

	August 1, 2021	January 31, 2021
<i>(In thousands)</i>		
Prepaid expenses and other current assets:		
Prepaid expenses	\$ 105,641	\$ 82,164
Forward currency contract assets	13,956	17,364
Other current assets	21,876	25,579
	\$ 141,473	\$ 125,107
Property and equipment, net:		
Land	\$ 76,029	\$ 74,261
Buildings	31,366	30,870
Leasehold improvements	623,074	583,305
Furniture and fixtures	118,598	117,334
Computer hardware	126,455	116,239
Computer software	476,690	427,313
Equipment and vehicles	19,228	17,105
Work in progress	108,998	69,847
Property and equipment, gross	1,580,438	1,436,274
Accumulated depreciation	(774,051)	(690,587)
	\$ 806,387	\$ 745,687
Other non-current assets:		
Cloud computing arrangement implementation costs	\$ 82,150	\$ 74,631
Security deposits	23,707	23,154
Other	18,648	8,841
	\$ 124,505	\$ 106,626
Other accrued liabilities		
Accrued freight and other operating expenses	\$ 140,783	\$ 97,335
Accrued duty	24,769	17,404
Sales return allowances	25,393	32,560
Sales tax collected	19,075	15,246
Accrued capital expenditures	17,639	8,653
Forward currency contract liabilities	16,176	18,766
Accrued rent	10,420	8,559
Other	14,769	13,388
	\$ 269,024	\$ 211,911

Note 10. Segmented Information

The Company's segments are based on the financial information it uses in managing its business and comprise two reportable segments: (i) company-operated stores and (ii) direct to consumer. The remainder of its operations which includes outlets, temporary locations, sales to wholesale accounts, license and supply arrangements, and MIRROR are included within Other.

	Second Quarter		First Two Quarters	
	2021	2020	2021	2020
<i>(In thousands)</i>				
Net revenue:				
Company-operated stores	\$ 695,120	\$ 287,201	\$ 1,231,704	\$ 547,171
Direct to consumer	597,426	554,302	1,142,515	906,341
Other	158,072	61,439	302,864	101,392
	\$ 1,450,618	\$ 902,942	\$ 2,677,083	\$ 1,554,904
Segmented income (loss) from operations:				
Company-operated stores	\$ 184,996	\$ (5,293)	\$ 284,144	\$ (35,447)
Direct to consumer	260,248	237,595	497,181	394,542
Other	22,240	2,587	36,746	2,318
	467,484	234,889	818,071	361,413
General corporate expense	166,115	98,269	313,022	189,974
Amortization of intangible assets	2,195	747	4,390	770
Acquisition-related expenses	8,143	11,464	15,807	13,509
Income from operations	291,031	124,409	484,852	157,160
Other income (expense), net	96	(344)	323	830
Income before income tax expense	\$ 291,127	\$ 124,065	\$ 485,175	\$ 157,990
Capital expenditures:				
Company-operated stores	\$ 28,656	\$ 27,316	\$ 47,221	\$ 61,135
Direct to consumer	16,902	9,781	43,483	12,079
Corporate and other	34,711	15,525	53,790	31,509
	\$ 80,269	\$ 52,622	\$ 144,494	\$ 104,723
Depreciation and amortization:				
Company-operated stores	\$ 28,304	\$ 21,963	\$ 55,104	\$ 47,591
Direct to consumer	6,836	2,928	12,584	5,612
Corporate and other	18,498	15,753	36,435	30,973
	\$ 53,638	\$ 40,644	\$ 104,123	\$ 84,176

Note 11. Net Revenue by Geography and Category

The following table disaggregates the Company's net revenue by geographic area.

	Second Quarter		First Two Quarters	
	2021	2020	2021	2020
<i>(In thousands)</i>				
United States	\$ 996,292	\$ 595,918	\$ 1,845,906	\$ 1,055,270
Canada	216,502	147,658	384,231	247,155
Outside of North America	237,824	159,366	446,946	252,479
	\$ 1,450,618	\$ 902,942	\$ 2,677,083	\$ 1,554,904

The following table disaggregates the Company's net revenue by category. During the fourth quarter of 2020, the Company determined that a portion of certain sales returns which had been recorded within Other categories were more

appropriately classified within Women's product and Men's product. Accordingly, comparative figures have been reclassified to conform to the current presentation.

	Second Quarter		First Two Quarters	
	2021	2020	2021	2020
<i>(In thousands)</i>				
Women's product	\$ 968,951	\$ 647,198	\$ 1,818,596	\$ 1,124,825
Men's product	363,063	190,381	637,370	318,772
Other categories	118,604	65,363	221,117	111,307
	\$ 1,450,618	\$ 902,942	\$ 2,677,083	\$ 1,554,904

Note 12. Legal Proceedings and Other Contingencies

In addition to the legal proceedings described below, the Company is, from time to time, involved in routine legal matters, and audits and inspections by governmental agencies and other third parties which are incidental to the conduct of its business. This includes legal matters such as initiation and defense of proceedings to protect intellectual property rights, personal injury claims, product liability claims, employment claims, and similar matters. The Company believes the ultimate resolution of any such legal proceedings, audits, and inspections will not have a material adverse effect on its consolidated balance sheets, results of operations or cash flows. The Company has recognized immaterial provisions related to the expected outcome of legal proceedings.

In March 2020, a former retail employee filed a representative action in the Los Angeles Superior Court alleging violation of the Private Attorney General Act ("PAGA") based on purported California labor code violations including failure to pay wages, failure to pay overtime, failure to provide accurate itemized statements, and failure to provide meal and rest periods. The plaintiff is seeking to recover civil penalties under PAGA. The Company denied all allegations. The parties have agreed in principle to resolve the matter and are working to finalize the resolution and dismiss the action.

In April 2020, Align Activation Wear, LLC filed a lawsuit in the United States District Court for the Central District of California alleging federal trademark infringement, false designation of origin and unfair competition. The plaintiff is seeking injunctive relief, monetary damages and declaratory relief. The Company obtained summary judgment that the Company did not infringe upon any of the plaintiff's rights and the district court entered judgment in the Company's favor on all claims. The plaintiff has filed a Notice of Appeal with the United States Court of Appeals for the Ninth Circuit. The Company intends to defend its win at the appellate level.

In April 2021, DISH Technologies L.L.C., and Sling TV L.L.C. (DISH) filed a complaint in the United States District Court for the District of Delaware and, along with DISH DBS Corporation, also with the United States International Trade Commission (ITC) under Section 337 of the Tariff Act of 1930 against the Company and its Curiouser Products subsidiary (MIRROR), along with ICON Health & Fitness, Inc., FreeMotion Fitness, Inc., NordicTrack, Inc., and Peloton Interactive, Inc., alleging infringement of various patents related to fitness devices containing internet-streaming enabled video displays. In the ITC complaint, DISH seeks an exclusion order barring the importation of MIRROR fitness devices, streaming components and systems containing components that infringe one or more of the asserted patents as well as a cease and desist order preventing the Company from carrying out commercial activities within the United States related to those products. In the District of Delaware complaint, DISH is seeking an order permanently enjoining the Company from infringing the asserted patents, an award of damages for the infringement of the asserted patents, and an award of damages for lost sales. The ITC investigation is ongoing and the Delaware litigation remains stayed pending resolution to the ITC investigation. The Company intends to vigorously defend this matter.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Some of the statements contained in this Form 10-Q and any documents incorporated herein by reference constitute 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. All statements, other than statements of historical facts, included or incorporated in this Form 10-Q are forward-looking statements, particularly statements which relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts, such as statements regarding our future financial condition or results of operations, the impact of the COVID-19 pandemic on our business and results of operations, expectations related to our acquisition of MIRROR, our prospects and strategies for future growth, the development and introduction of new products, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking

statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "intends," "predicts," "potential" or the negative of these terms or other comparable terminology.

The forward-looking statements contained in this Form 10-Q and any documents incorporated herein by reference reflect our current views about future events and are subject to risks, uncertainties, assumptions, and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance, or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, those factors described in "Risk Factors" and elsewhere in this report.

The forward-looking statements contained in this Form 10-Q reflect our views and assumptions only as of the date of this Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this Form 10-Q. Except as required by applicable securities law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

This information should be read in conjunction with the unaudited interim consolidated financial statements and the notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in our fiscal 2020 Annual Report on Form 10-K filed with the SEC on March 30, 2021. Fiscal 2021 and fiscal 2020 are referred to as "2021," and "2020," respectively. The first two quarters of 2021 and 2020 ended on August 1, 2021 and August 2, 2020, respectively. Components of management's discussion and analysis of financial condition and results of operations include:

- [Overview and COVID-19 Update](#)
- [Financial Highlights](#)
- [Quarter-to-Date Results of Operations](#)
- [Year-to-Date Results of Operations](#)
- [Comparable Store Sales and Total Comparable Sales](#)
- [Non-GAAP Financial Measures](#)
- [Seasonality](#)
- [Liquidity and Capital Resources](#)
- [Revolving Credit Facilities](#)
- [Off-Balance Sheet Arrangements](#)
- [Critical Accounting Policies and Estimates](#)
- [Operating Locations](#)

We disclose material non-public information through one or more of the following channels: our investor relations website (<http://investor.lululemon.com/>), the social media channels identified on our investor relations website, press releases, SEC filings, public conference calls, and webcasts.

Overview

lululemon athletica inc. is principally a designer, distributor, and retailer of healthy lifestyle inspired athletic apparel and accessories. We have a vision to be the experiential brand that ignites a community of people through sweat, grow, and connect, which we call "living the sweatlife." Since our inception, we have fostered a distinctive corporate culture; we promote a set of core values in our business which include taking personal responsibility, nurturing entrepreneurial spirit, acting with honesty and courage, valuing connection and inclusion, and choosing to have fun. These core values attract passionate and motivated employees who are driven to achieve personal and professional goals, and share our purpose "to elevate the world by unleashing the full potential within every one of us."

Our healthy lifestyle inspired athletic apparel and accessories are marketed under the lululemon brand. We offer a comprehensive line of apparel and accessories. Our apparel assortment includes items such as pants, shorts, tops, and jackets designed for a healthy lifestyle including athletic activities such as yoga, running, training, and most other sweaty pursuits. We also offer apparel designed for being On the Move and fitness-related accessories. We expect to continue to broaden our merchandise offerings through expansion across these product areas.

During the second quarter of 2020, we acquired Curiouser Products Inc., dba MIRROR. MIRROR is an in-home fitness company with an interactive workout platform that features live and on-demand classes. The acquisition of MIRROR bolsters our digital sweatlife offerings and brings immersive and personalized in-home sweat and mindfulness content to new and existing lululemon guests.

COVID-19 Update

COVID-19 continues to impact the global economy and cause disruption and volatility. Governments and public health officials around the world have imposed and continue to impose restrictions and recommend precautions to mitigate the spread of the virus. We believe we will continue to experience differing levels of disruption and volatility, market by market.

While most of our retail locations were open throughout the first two quarters of fiscal 2021, certain locations were temporarily closed based on government and health authority guidance in those markets, including in parts of Canada, Asia Pacific, and Europe. We continue to operate with necessary precautionary measures in place at our retail locations and distribution centers.

The pandemic has also impacted our product manufacturers and our distribution and logistics providers. We have experienced disruption in transportation and port congestion, as well as an increase in freight costs. As a result of this disruption, certain inventory receipts have been delayed, and we expect this disruption and increased costs to continue at least through to the end of 2021.

Prior to the COVID-19 pandemic, guest shopping preferences were shifting towards digital platforms and we had been investing in our websites, mobile apps, and omni-channel capabilities. We believe COVID-19 further shifted guest shopping behavior and has resulted in significant increases in traffic to our websites and digital apps. This increased traffic contributed to the significant growth in our direct to consumer net revenue in 2020 and in the first quarter of 2021. While we expect our direct to consumer business to grow in 2021, we expect the year over year growth rate to moderate compared to 2020.

Guest traffic at our retail locations has improved during 2021, but remains below pre-pandemic levels. Improved traffic combined with increased conversion has resulted in overall store productivity at our open stores in the second quarter of 2021 being in line with the second quarter of 2019.

There remains significant uncertainty regarding the extent and duration of the impact that COVID-19 will have on our operations. Continued proliferation of the virus, resurgences, or the emergence of new variants may result in further or prolonged closures of our retail locations and distribution centers, reduce operating hours, further disrupt our supply chain, cause changes in guest behavior, and reduce discretionary spending. Such factors are beyond our control and could elicit further actions and recommendations from governments and public health authorities.

Financial Highlights

For the second quarter of 2021, compared to the second quarter of 2020:

- Net revenue increased 61% to \$1.5 billion. On a constant dollar basis, net revenue increased 56%.
- Company-operated stores net revenue increased 142% to \$695.1 million.
- Direct to consumer net revenue increased 8% to 597.4 million, or increased 4% on a constant dollar basis. We held an online warehouse sale during the second quarter of 2020 which generated net revenue of \$43.3 million.
- Gross profit increased 72% to \$842.7 million.
- Gross margin increased 390 basis points to 58.1%.
- Income from operations increased 134% to \$291.0 million.
- Operating margin increased 630 basis points to 20.1%.
- Income tax expense increased 123% to \$83.1 million. Our effective tax rate for the second quarter of 2021 was 28.5% compared to 30.0% for the second quarter of 2020.
- Diluted earnings per share were \$1.59 compared to \$0.66 in the second quarter of 2020. This includes \$7.7 million and \$9.5 million of after-tax costs related to the MIRROR acquisition in the second quarter of 2021 and 2020, respectively, which reduced diluted earnings per share by \$0.06 and \$0.08 in the second quarter of 2021 and 2020, respectively.

Refer to the non-GAAP reconciliation tables contained in the "Non-GAAP Financial Measures" section of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" for reconciliations between constant dollar changes in net revenue and direct to consumer net revenue and the most directly comparable measures calculated in accordance with GAAP.

Quarter-to-Date Results of Operations: Second Quarter Results

The following table summarizes key components of our results of operations for the periods indicated:

	Second Quarter			
	2021	2020	2021	2020
	(In thousands)		(Percentage of net revenue)	
Net revenue	\$ 1,450,618	\$ 902,942	100.0 %	100.0 %
Cost of goods sold	607,932	413,441	41.9	45.8
Gross profit	842,686	489,501	58.1	54.2
Selling, general and administrative expenses	541,317	352,881	37.3	39.1
Amortization of intangible assets	2,195	747	0.2	0.1
Acquisition-related expenses	8,143	11,464	0.6	1.3
Income from operations	291,031	124,409	20.1	13.8
Other income (expense), net	96	(344)	—	—
Income before income tax expense	291,127	124,065	20.1	13.7
Income tax expense	83,053	37,264	5.7	4.1
Net income	\$ 208,074	\$ 86,801	14.3 %	9.6 %

Net Revenue

Net revenue increased \$547.7 million, or 61%, to \$1.5 billion for the second quarter of 2021 from \$902.9 million for the second quarter of 2020. On a constant dollar basis, assuming the average foreign currency exchange rates for the second quarter of 2021 remained constant with the average foreign currency exchange rates for the second quarter of 2020, net revenue increased \$507.3 million, or 56%.

The increase in net revenue was primarily due to increased company-operated store and other net revenue, primarily due to most of our stores being open for the entire second quarter of 2021, while almost all were temporarily closed for a significant portion of the second quarter of 2020 as a result of COVID-19. Direct to consumer net revenue also increased.

Net revenue for the second quarter of 2021 and 2020 is summarized below.

	Second Quarter					
	2021	2020	2021	2020	Year over year change	
	(In thousands)		(Percentages)		(In thousands)	(Percentages)
Company-operated stores	\$ 695,120	\$ 287,201	47.9 %	31.8 %	\$ 407,919	142.0 %
Direct to consumer	597,426	554,302	41.2	61.4	43,124	7.8
Other	158,072	61,439	10.9	6.8	96,633	157.3
Net revenue	\$ 1,450,618	\$ 902,942	100.0 %	100.0 %	\$ 547,676	60.7 %

Company-Operated Stores. The increase in net revenue from our company-operated stores was primarily due to most of our stores being open for the entire second quarter of 2021, while almost all were temporarily closed for a significant portion of the second quarter of 2020 as a result of COVID-19. We have opened 28 net new company-operated stores since the second quarter of 2020 which also contributed to the increase in net revenue. This included 16 stores in Asia Pacific, 10 stores in North America, and two stores in Europe.

Direct to Consumer. Direct to consumer net revenue increased 8%, and increased 4% on a constant dollar basis. The increase in net revenue from our direct to consumer segment was primarily a result of increased traffic and a higher dollar value per transaction, partially offset by a decrease in conversion rates. During the second quarter of 2020, we held an online warehouse sale in the United States and Canada which generated net revenue of \$43.3 million. We did not hold any warehouse sales during the second quarter of 2021.

Other channels. The increase in net revenue from our other channels was primarily due to most of our locations being open for the entire second quarter of 2021, while almost all were temporarily closed for a significant portion of the second quarter of 2020 as a result of COVID-19. Net revenue from MIRROR, which we acquired during the second quarter of 2020, also contributed to the increase in other net revenue.

Gross Profit

	Second Quarter			
	2021	2020	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Gross profit	\$ 842,686	\$ 489,501	\$ 353,185	72.2 %
Gross margin	58.1 %	54.2 %	390 basis points	

The increase in gross margin was primarily the result of:

- a decrease in occupancy and depreciation costs as a percentage of net revenue of 210 basis points, driven primarily by the increase in net revenue;
- a decrease in costs related to our distribution centers and product departments as a percentage of net revenue of 140 basis points, driven primarily by the increase in net revenue; and
- a favorable impact of foreign currency exchange rates of 60 basis points.

The increase in gross margin was partially offset by a decrease in product margin of 20 basis points, primarily due to higher air freight costs as a result of COVID-19 impacts on logistics availability and costs, as well as higher inventory provision expenses, partially offset by lower markdowns.

Selling, General and Administrative Expenses

	Second Quarter			
	2021	2020	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Selling, general and administrative expenses	\$ 541,317	\$ 352,881	\$ 188,436	53.4 %
Selling, general and administrative expenses as a percentage of net revenue	37.3 %	39.1 %	(180) basis points	

The increase in selling, general and administrative expenses was primarily due to:

- an increase in costs related to our operating channels of \$93.5 million, comprised of:
 - an increase in employee costs of \$51.0 million primarily due to an increase in incentive compensation and salaries and wages expenses in our company-operated stores and other retail locations, primarily from the growth in our business;
 - an increase in brand and community costs of \$19.9 million primarily due to an increase in digital marketing expenses;
 - an increase in variable costs of \$13.6 million primarily due to an increase in credit card fees and packaging costs as a result of increased net revenue; and
 - an increase in operating costs of \$9.0 million primarily due to an increase in depreciation, occupancy, security, information technology, and repairs and maintenance costs;
- an increase in head office costs of \$71.3 million, comprised of:
 - an increase in costs of \$41.5 million primarily due to an increase in professional fees, brand and community costs, information technology costs, and depreciation; and
 - an increase in employee costs of \$29.8 million primarily due to an increase in salaries and wages expense, incentive compensation, and benefits, primarily as a result of headcount growth;
- a decrease in government payroll subsidies of \$21.0 million as no government payroll subsidies were recognized in the second quarter of 2021; and
- an increase in net foreign currency exchange and derivative revaluation losses of \$2.6 million.

Amortization of intangible assets

	Second Quarter			
	2021	2020	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Amortization of intangible assets	\$ 2,195	\$ 747	\$ 1,448	193.8 %

The increase in the amortization of intangible assets was the result of the amortization of intangible assets recognized upon the acquisition of MIRROR during the second quarter of 2020.

Acquisition-related expenses

	Second Quarter			
	2021	2020	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Acquisition-related expenses	\$ 8,143	\$ 11,464	\$ (3,321)	(29.0)%

In connection with our acquisition of MIRROR, we recognized acquisition-related compensation expenses of \$7.1 million and \$5.0 million in the second quarter of 2021 and 2020, respectively. We also recognized transaction and integration related costs of \$1.0 million and \$7.2 million in the second quarter of 2021 and 2020, respectively. Acquisition related expenses in the second quarter of 2020 were partially offset by a \$0.8 million gain recognized on our existing investment.

Income from Operations

On a segment basis, we determine income from operations without taking into account our general corporate expenses. Segmented income from operations is summarized below.

	Second Quarter					
	2021	2020	2021	2020	Year over year change	
	(In thousands)		(Percentage of net revenue of respective operating segment)		(In thousands)	(Percentage)
Segmented income (loss) from operations:						
Company-operated stores	\$ 184,996	\$ (5,293)	26.6 %	(1.8)%	\$ 190,289	n/a
Direct to consumer	260,248	237,595	43.6	42.9	22,653	9.5 %
Other	22,240	2,587	14.1	4.2	19,653	n/a
	\$ 467,484	\$ 234,889			\$ 232,595	99.0 %
General corporate expense	166,115	98,269			67,846	69.0
Amortization of intangible assets	2,195	747			1,448	n/a
Acquisition-related expenses	8,143	11,464			(3,321)	(29.0)
Income from operations	\$ 291,031	\$ 124,409			\$ 166,622	133.9 %
Operating margin	20.1 %	13.8 %			630 basis points	

Company-Operated Stores. The increase in income from operations from our company-operated stores was primarily the result of increased gross profit of \$264.4 million, driven by increased net revenue and higher gross margin primarily due to most of our stores being open for the entire second quarter of 2021, while almost all were temporarily closed for a significant portion of the second quarter of 2020 as a result of COVID-19. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to higher employee and operating costs. Employee costs increased primarily due to higher incentive compensation and higher salaries and wages expense as a result of growth in our business. Store operating costs increased primarily due to government payroll subsidies that were recognized during the second quarter of 2020. No government payroll subsidies were recognized during the second quarter of 2021. There were also increases in credit card fees, distribution and packaging costs as a result of higher net revenue. Income from operations as a percentage of company-operated stores net revenue increased due to higher gross margin and leverage on selling, general and administrative expenses.

Direct to Consumer. The increase in income from operations from our direct to consumer segment was primarily the result of increased gross profit of \$34.5 million driven by increased net revenue. The increase in gross profit was partially

offset by an increase in selling, general and administrative expenses, primarily due to higher digital marketing expenses and depreciation. Income from operations as a percentage of direct to consumer net revenue increased primarily due to higher gross margin.

Other channels. The increase in income from operations from our other retail locations was primarily the result of increased gross profit of \$54.4 million, primarily due to increased net revenue. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses driven by MIRROR digital marketing expenses, higher salaries and wages and incentive compensation, as well as increased credit card fees and distribution costs as a result of higher net revenue. Income from operations as a percentage of other net revenue increased primarily due to an increase in gross margin, partially offset by deleverage on selling, general and administrative expenses.

General Corporate Expenses. The increase in general corporate expenses was primarily due to increased employee costs primarily from the growth in our business, as well as increased professional fees, information technology costs, brand and community costs, and depreciation. An increase in net foreign currency exchange and derivative revaluation losses of \$2.6 million also contributed to the increase in general corporate expenses.

Other Income (Expense), Net

	Second Quarter			
	2021	2020	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Other income (expense), net	\$ 96	\$ (344)	\$ 440	(127.9)%

The increase in other income, net was primarily due to an increase in interest income driven by increased cash balances.

Income Tax Expense

	Second Quarter			
	2021	2020	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Income tax expense	\$ 83,053	\$ 37,264	\$ 45,789	122.9 %
Effective tax rate	28.5 %	30.0 %	(150) basis points	

The decrease in the effective tax rate was primarily due to a net increase in tax deductions related to stock-based compensation. Certain non-deductible expenses related to the MIRROR acquisition increased the effective tax rate by 60 basis points in the second quarter of 2021 compared to 110 basis points in the second quarter of 2020.

Net Income

	Second Quarter			
	2021	2020	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Net income	\$ 208,074	\$ 86,801	\$ 121,273	139.7 %

The increase in net income was primarily due to an increase in gross profit of \$353.2 million and an increase in other income (expense), net of \$0.4 million and a decrease in acquisition-related expenses of \$3.3 million, partially offset by an increase in selling, general and administrative expenses of \$188.4 million, an increase in income tax expense of \$45.8 million, and an increase in amortization of intangible assets of \$1.4 million.

Year-to-Date Results of Operations: First Two Quarters Results

The following table summarizes key components of our results of operations for the periods indicated:

	First Two Quarters			
	2021	2020	2021	2020
	(In thousands)		(Percentages)	
Net revenue	\$ 2,677,083	\$ 1,554,904	100.0 %	100.0 %
Cost of goods sold	1,134,083	731,001	42.4	47.0
Gross profit	1,543,000	823,903	57.6	53.0
Selling, general and administrative expenses	1,037,951	652,464	38.8	42.0
Amortization of intangible assets	4,390	770	0.2	—
Acquisition-related expenses	15,807	13,509	0.6	0.9
Income from operations	484,852	157,160	18.1	10.1
Other income (expense), net	323	830	—	0.1
Income before income tax expense	485,175	157,990	18.1	10.2
Income tax expense	132,145	42,557	4.9	2.7
Net income	\$ 353,030	\$ 115,433	13.2 %	7.4 %

Net Revenue

Net revenue increased \$1.1 billion, or 72%, to \$2.7 billion for the first two quarters of 2021 from \$1.6 billion for the first two quarters of 2020. On a constant dollar basis, assuming the average foreign currency exchange rates for the first two quarters of 2021 remained constant with the average foreign currency exchange rates for the first two quarters of 2020, net revenue increased \$1.0 billion, or 67%.

The increase in net revenue was primarily due to increased company-operated store and other net revenue, primarily due to most of our stores being open for the entire first two quarters of 2021, while almost all were temporarily closed for a significant portion of the first two quarters of 2020 as a result of COVID-19. Direct to consumer net revenue also increased, partially due to a shift in the way guests are shopping as a result COVID-19.

Net revenue for the first two quarters of 2021 and 2020 is summarized below.

	First Two Quarters					
	2021	2020	2021	2020	Year over year change	
	(In thousands)		(Percentages)		(In thousands)	(Percentage)
Company-operated stores	\$ 1,231,704	\$ 547,171	46.0 %	35.2 %	\$ 684,533	125.1 %
Direct to consumer	1,142,515	906,341	42.7	58.3	236,174	26.0
Other	302,864	101,392	11.3	6.5	201,472	198.7
Net revenue	\$ 2,677,083	\$ 1,554,904	100.0 %	100.0 %	\$ 1,122,179	72.2 %

Company-Operated Stores. The increase in net revenue from our company-operated stores was primarily due to most of our stores being open for the entire first two quarters of 2021, while almost all were temporarily closed for a significant portion of the first two quarters of 2020 as a result of COVID-19. We opened 28 net new company-operated stores since the second quarter of 2020 which also contributed to the increase in net revenue. This included 16 stores in Asia Pacific, 10 stores in North America, and two stores in Europe.

Direct to Consumer. Direct to consumer net revenue increased 26%, and increased 22% on a constant dollar basis. The increase in net revenue from our direct to consumer segment was primarily a result of increased traffic and a higher dollar value per transaction, partially offset by a decrease in conversion rates. During the second quarter of 2020, we held an online warehouse sale in the United States and Canada which generated net revenue of \$43.3 million. We did not hold any warehouse sales during the first two quarters of 2021.

Other channels. The increase in net revenue from other channels was primarily due to most of our locations being open for the entire first two quarters of 2021, while almost all were temporarily closed for a significant portion of the first two quarters of 2020 as a result of COVID-19. Net revenue from MIRROR, which we acquired during the second quarter of 2020, also contributed to the increase in other net revenue.

Gross Profit

	First Two Quarters		
	2021	2020	Year over year change
	(In thousands)	(In thousands)	(Percentage)
Gross profit	\$ 1,543,000	\$ 823,903	\$ 719,097 87.3 %
Gross margin	57.6 %	53.0 %	460 basis points

The increase in gross margin was primarily the result of:

- a decrease in occupancy and depreciation costs as a percentage of net revenue of 340 basis points, driven primarily by the increase in net revenue;
- a decrease in costs related to our distribution centers and product departments as a percentage of net revenue of 120 basis points, driven primarily by the increase in net revenue; and
- a favorable impact of foreign currency exchange rates of 60 basis points.

The increase in gross margin was partially offset by a decrease in product margin of 60 basis points, primarily due to higher air freight costs as a result of COVID-19 impacts on logistics availability and costs, partially offset by lower markdowns.

Selling, General and Administrative Expenses

	First Two Quarters		
	2021	2020	Year over year change
	(In thousands)	(In thousands)	(Percentage)
Selling, general and administrative expenses	\$ 1,037,951	\$ 652,464	\$ 385,487 59.1 %
Selling, general and administrative expenses as a percentage of net revenue	38.8 %	42.0 %	(320) basis points

The increase in selling, general and administrative expenses was primarily due to:

- an increase in costs related to our operating channels of \$214.2 million, comprised of:
 - an increase in employee costs of \$89.7 million primarily due to an increase in incentive compensation, salaries and wages expense, and benefit expenses in our company-operated store and other retail locations, primarily from the growth in our business;
 - an increase in variable costs of \$52.1 million primarily due to an increase in distribution costs, credit card fees, and packaging expenses as a result of increased net revenue;
 - an increase in brand and community costs of \$45.3 million primarily due to an increase in digital marketing expenses; and
 - an increase in other operating costs of \$27.1 million primarily due to an increase in information technology costs, depreciation, occupancy costs, and security costs;
- an increase in head office costs of \$144.3 million, comprised of:
 - an increase in costs of \$79.1 million primarily due to an increase in professional fees, information technology costs, brand and community costs, and depreciation; and
 - an increase in employee costs of \$65.2 million primarily due to an increase in salaries and wages expense and employee benefit costs as a result of headcount growth, and an increase in incentive compensation and stock-based compensation expense.
- a decrease in government payroll subsidies of \$21.1 million as no government payroll subsidies were recognized in the first two quarters of 2021; and
- an increase in net foreign currency exchange and derivative revaluation losses of \$5.8 million.

Amortization of intangible assets

	First Two Quarters			
	2021	2020	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Amortization of intangible assets	\$ 4,390	\$ 770	\$ 3,620	470.1 %

The increase in the amortization of intangible assets was the result of the amortization of intangible assets recognized upon the acquisition of MIRROR during the second quarter of 2020.

Acquisition-related expenses

	First Two Quarters			
	2021	2020	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Acquisition-related expenses	\$ 15,807	\$ 13,509	\$ 2,298	17.0 %

In connection with our acquisition of MIRROR, we recognized acquisition-related compensation expenses of \$14.3 million and \$5.0 million in the first two quarters of 2021 and 2020, respectively. We also recognized transaction and integration related costs of \$1.5 million and \$9.2 million in the first two quarters of 2021 and 2020, respectively.

Income from Operations

On a segment basis, we determine income from operations without taking into account our general corporate expenses. Segmented income from operations is summarized below.

	First Two Quarters					
	2021	2020	2021	2020	Year over year change	
	(In thousands)		(Percentage of net revenue of respective operating segment)		(In thousands)	(Percentage)
Segmented income (loss) from operations:						
Company-operated stores	\$ 284,144	\$ (35,447)	23.1 %	(6.5)%	\$ 319,591	n/a
Direct to consumer	497,181	394,542	43.5	43.5	102,639	26.0 %
Other	36,746	2,318	12.1	2.3	34,428	n/a
	\$ 818,071	\$ 361,413			\$ 456,658	126.4 %
General corporate expense	313,022	189,974			123,048	64.8
Amortization of intangible assets	4,390	770			3,620	n/a
Acquisition-related expenses	15,807	13,509			2,298	17.0
Income from operations	\$ 484,852	\$ 157,160			\$ 327,692	208.5 %
Operating margin	18.1 %	10.1 %			800 basis points	

Company-Operated Stores. The increase in income from operations from our company-operated stores was primarily the result of increased gross profit of \$441.9 million, driven by increased net revenue and higher gross margin primarily due to most of our stores being open for the entire first two quarters of 2021, while almost all were temporarily closed for a significant portion of the first two quarters of 2020 as a result of COVID-19. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to higher employee and operating costs. Employee costs increased primarily due to higher incentive compensation and higher salaries and wages expense as a result of the growth in our business, as well as an increase in employee benefit expense. Store operating costs increased primarily due to government payroll subsidies that were recognized during the first two quarters of 2020. No government payroll subsidies were recognized during the first two quarters of 2021. There were also increases in credit card fees, distribution and packaging costs as a result of higher net revenue. Income from operations as a percentage of company-operated stores net revenue increased, primarily due to higher gross margin and leverage on selling, general and administrative expenses.

Direct to Consumer. The increase in income from operations from our direct to consumer segment was primarily the result of increased gross profit of \$164.1 million, driven by increased net revenue. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses primarily due to higher variable costs including

distribution costs, packaging, and credit card fees a result of higher net revenue, as well as higher digital marketing expenses and employee costs. Income from operations as a percentage of direct to consumer net revenue was consistent for the first two quarters of 2021, compared to the first two quarters of 2020. The increase in gross margin was offset by deleverage on selling, general and administrative expenses.

Other channels. The increase in income from operations from our other retail locations was primarily the result of increased gross profit of \$113.0 million, primarily due to increased net revenue. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, driven by MIRROR digital marketing expenses, higher salaries and wages expense and incentive compensation, as well as distribution costs and credit card fees as a result of higher net revenue. Income from operations as a percentage of other net revenue increased primarily due to leverage on selling, general and administrative expenses and in increase in gross margin.

General Corporate Expense. The increase in general corporate expenses was primarily due to increased employee costs primarily from the growth in our business, as well as increased professional fees, information technology costs, brand and community costs, depreciation, and supplies costs. An increase in net foreign currency exchange and derivative revaluation losses of \$5.8 million also contributed to the increase in general corporate expenses.

Other Income (Expense), Net

	First Two Quarters			
	2021	2020	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Other income (expense), net	\$ 323	\$ 830	\$ (507)	(61.1)%

The decrease in other income, net was primarily due to a decrease in interest income driven by lower interest rates, partially offset by increased cash balances.

Income Tax Expense

	First Two Quarters			
	2021	2020	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Income tax expense	\$ 132,145	\$ 42,557	\$ 89,588	210.5 %
Effective tax rate	27.2 %	26.9 %	30 basis points	

The increase in the effective tax rate was primarily due to certain non-deductible expenses in international jurisdictions which were partially offset by a net increase in tax deductions related to stock-based compensation. Certain non-deductible expenses related to the MIRROR acquisition increased the effective tax rate by 70 basis points in the first two quarters of 2021 compared to 90 basis points in the first two quarters of 2020.

Net Income

	First Two Quarters			
	2021	2020	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Net income	\$ 353,030	\$ 115,433	\$ 237,597	205.8 %

The increase in net income was primarily due to an increase in gross profit of \$719.1 million, partially offset by an increase in selling, general and administrative expenses of \$385.5 million, an increase in income tax expense of \$89.6 million, an increase in amortization of intangible assets of \$3.6 million, an increase in acquisition-related expenses of \$2.3 million, and a decrease in other income of \$0.5 million.

Comparable Store Sales and Total Comparable Sales

We use comparable store sales to assess the performance of our existing stores as it allows us to monitor the performance of our business without the impact of recently opened or expanded stores. We use total comparable sales to evaluate the performance of our business from an omni-channel perspective. We therefore believe that investors would similarly find these metrics useful in assessing the performance of our business. However, as the temporary store closures

from COVID-19 during the first two quarters of 2020 resulted in a significant number of stores being removed from our comparable store calculations, we believe total comparable sales and comparable store sales are not currently representative of the underlying trends of our business. We do not believe these metrics are currently useful to investors in understanding performance, therefore we have not included these metrics in our discussion and analysis of results of operations. We did not provide comparable sales metrics that included the first two quarters during 2020, and expect to do the same for 2021.

Non-GAAP Financial Measures

Constant dollar changes in net revenue and direct to consumer net revenue are non-GAAP financial measures.

A constant dollar basis assumes the average foreign currency exchange rates for the period remained constant with the average foreign currency exchange rates for the same period of the prior year. We provide constant dollar changes in our results to help investors understand the underlying growth rate of net revenue excluding the impact of changes in foreign currency exchange rates.

The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or with greater prominence to, the financial information prepared and presented in accordance with GAAP. A reconciliation of the non-GAAP financial measures follows, 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.

Constant dollar changes in net revenue

The below changes in net revenue show the change compared to the corresponding period in the prior year.

	Second Quarter 2021			First Two Quarters 2021		
	Net Revenue		Direct to Consumer Net Revenue	Net Revenue		Direct to Consumer Net Revenue
	(In thousands)	(Percentages)	(Percentages)	(In thousands)	(Percentages)	(Percentages)
Change	\$ 547,676	61 %	8 %	\$ 1,122,179	72 %	26 %
Adjustments due to foreign currency exchange rate changes	(40,339)	(5)	(4)	(73,730)	(5)%	(4)%
Change in constant dollars	\$ 507,337	56 %	4 %	\$ 1,048,449	67 %	22 %

Seasonality

Our business is affected by the general seasonal trends common to the retail apparel industry. Our annual net revenue is weighted more heavily toward our fourth fiscal quarter, reflecting our historical strength in sales during the holiday season, while our operating expenses are more equally distributed throughout the year. As a result, a substantial portion of our operating profits are generated in the fourth quarter of our fiscal year. For example, we generated approximately 56% and 47% of our full year operating profit during the fourth quarters of 2020 and 2019, respectively. Due to a significant number of our company-operated stores being temporarily closed due to COVID-19 during the first two quarters of 2020, we earned a higher proportion of our operating profit during the last two quarters of 2020 compared to prior years.

Liquidity and Capital Resources

Our primary sources of liquidity are our current balances of cash and cash equivalents, cash flows from operations, and capacity under our committed revolving credit facility. Our primary cash needs are capital expenditures for opening new stores and remodeling or relocating existing stores, investing in information technology and making system enhancements, funding working capital requirements, and making other strategic capital investments both in North America and internationally. We may also use cash to repurchase shares of our common stock. Cash and cash equivalents in excess of our needs are held in interest bearing accounts with financial institutions, as well as in money market funds, treasury bills, and term deposits.

We believe that our cash and cash equivalent balances, cash generated from operations, and borrowings available to us under our committed revolving credit facility will be adequate to meet our liquidity needs and capital expenditure requirements for at least the next 12 months. Our cash from operations may be negatively impacted by a decrease in demand for our products, as well as the other factors described in "Item 1A. Risk Factors". In addition, we may make discretionary capital improvements with respect to our stores, distribution facilities, headquarters, or systems, or we may repurchase shares under an approved stock repurchase program, which we would expect to fund through the use of cash, issuance of

debt or equity securities or other external financing sources to the extent we were unable to fund such capital expenditures out of our cash and cash equivalents and cash generated from operations.

The following table includes certain measures of our liquidity:

	August 1, 2021
	(In thousands)
Cash and cash equivalents	\$ 1,170,041
Working capital excluding cash and cash equivalents ⁽¹⁾	123,912
Capacity under committed revolving credit facility	397,212

(1) Working capital is calculated as current assets of \$2.3 billion less current liabilities of \$1.0 billion.

The following table summarizes our net cash flows provided by and used in operating, investing, and financing activities for the periods indicated:

	First Two Quarters		
	2021	2020	Year over year change
	(In thousands)		
Total cash provided by (used in):			
Operating activities	\$ 499,772	\$ 60,062	\$ 439,710
Investing activities	(201,493)	(545,323)	343,830
Financing activities	(290,767)	(82,157)	(208,610)
Effect of foreign currency exchange rate changes on cash	12,012	(3,089)	15,101
Increase (decrease) in cash and cash equivalents	\$ 19,524	\$ (570,507)	\$ 590,031

Operating Activities

The increase in cash provided by operating activities was primarily as a result of:

- increased net income of \$237.6 million;
- an increase in cash flows from the changes in operating assets and liabilities of \$115.3 million. This increase was driven by changes in accrued compensation, and prepaid expenses and other current assets; and
- changes in adjusting items of \$86.8 million, primarily driven by higher cash inflows related to derivatives not designated in a hedging relationship, and due to increased stock-based compensation and depreciation expense.

Investing Activities

The decrease in cash used in investing activities was primarily due to the MIRROR acquisition in 2020, partially offset by the settlement of net investment hedges and increased capital expenditures. The increase in capital expenditures was primarily due to increased capital expenditures for our direct to consumer segment driven by investment in our distribution centers, as well as increased corporate expenditures. This was partially offset by decreased expenditures for our company-operated stores.

Financing Activities

The increase in cash used in financing activities was primarily the result of an increase in stock repurchases. Cash used in financing activities for the first two quarters of 2021 included \$254.9 million to repurchase 0.8 million shares of our common stock compared to \$63.7 million to repurchase 0.4 million shares for the first two quarters of 2020. The common stock was repurchased in the open market at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934, with the timing and actual number of shares repurchased depending upon market conditions, eligibility to trade, and other factors.

Revolving Credit Facilities

North America revolving credit facility

During 2016, we obtained a \$150.0 million committed and unsecured five-year revolving credit facility with major financial institutions. On June 6, 2018, we amended the credit agreement to provide for (i) an increase in the aggregate commitments under the revolving credit facility to \$400.0 million, with an increase of the sub-limits for the issuance of letters of credit and extensions of swing line loans to \$50.0 million for each, (ii) an increase in the option, subject to certain conditions, to request increases in commitments from \$400.0 million to \$600.0 million and (iii) an extension in the maturity of the facility from December 15, 2021 to June 6, 2023. Borrowings under the facility may be made in U.S. Dollars, Euros, Canadian Dollars, and in other currencies, subject to the lenders' approval. As of August 1, 2021, aside from letters of credit of \$2.8 million, we had no other borrowings outstanding under this credit facility.

Borrowings under the facility bear interest at a rate equal to, at our option, either (a) rates based on deposits on the interbank market for U.S. Dollars or the applicable currency in which the borrowings are made ("LIBOR") or (b) an alternate base rate, plus, an applicable margin determined by reference to a pricing grid, based on the ratio of indebtedness to earnings before interest, tax, depreciation, amortization, and rent ("EBITDAR") and ranges between 1.00%-1.50% for LIBOR loans and 0.00%-0.50% for alternate base rate loans. Additionally, a commitment fee of between 0.10%-0.20% is payable on the average unused amounts under the revolving credit facility, and fees of 1.00%-1.50% are payable on unused letters of credit.

The credit agreement contains negative covenants that, among other things and subject to certain exceptions, limit the ability of our subsidiaries to incur indebtedness, incur liens, undergo fundamental changes, make dispositions of all or substantially all of their assets, alter their businesses and enter into agreements limiting subsidiary dividends and distributions.

We are also required to maintain a consolidated rent-adjusted leverage ratio of not greater than 3.5:1 and to maintain the ratio of consolidated EBITDAR to consolidated interest charges (plus rent) below 2:1. The credit agreement also contains certain customary representations, warranties, affirmative covenants, and events of default (including, among others, an event of default upon the occurrence of a change of control). As of August 1, 2021, we were in compliance with the covenants of the credit facility.

Mainland China revolving credit facility

In December 2019, we entered into an uncommitted and unsecured 130.0 million Chinese Yuan revolving credit facility with terms that are reviewed on an annual basis. The credit facility was increased to 230.0 million Chinese Yuan during 2020. It is comprised of a revolving loan of up to 200.0 million Chinese Yuan and a financial guarantee facility of up to 30.0 million Chinese Yuan, or its equivalent in another currency. Loans are available for a period not to exceed 12 months, at an interest rate equal to the loan prime rate plus a spread of 0.5175%. We are required to comply with certain covenants. As of August 1, 2021, we were in compliance with the covenant and, aside from letters of credit of 1.3 million Chinese Yuan, we had no other borrowings or guarantees outstanding under this credit facility.

Off-Balance Sheet Arrangements

We enter into standby letters of credit to secure certain of our obligations, including leases, taxes, and duties. As of August 1, 2021, letters of credit and letters of guarantee totaling \$3.4 million had been issued, including \$2.8 million under our committed revolving credit facility.

We have not entered into any transactions, agreements or other contractual arrangements to which an entity unconsolidated with us is a party and under which we have (i) any obligation under a guarantee, (ii) any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity, (iii) any obligation under derivative instruments that are indexed to our shares and classified as equity in our consolidated balance sheets, or (iv) any obligation arising out of a variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from our estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that

reasonably could have been used or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements.

Our critical accounting policies and estimates are discussed within "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2020 Annual Report on Form 10-K filed with the SEC on March 30, 2021.

Operating Locations

Our company-operated stores by country as of August 1, 2021 and January 31, 2021 are summarized in the table below.

Number of company-operated stores by country	August 1, 2021	January 31, 2021
United States	318	315
Canada	62	62
People's Republic of China ⁽¹⁾	63	55
Australia	30	31
United Kingdom	16	16
South Korea	9	7
Germany	7	7
New Zealand	7	7
Japan	6	6
Singapore	4	4
France	3	3
Malaysia	2	2
Sweden	2	2
Ireland	2	1
Netherlands	1	1
Norway	1	1
Switzerland	1	1
Total company-operated stores	534	521

⁽¹⁾ Included within PRC as of August 1, 2021, were seven stores in Hong Kong, Special Administrative Region, three stores in Taiwan, and two stores in Macao, Special Administration Region. As of January 31, 2021, there were seven stores in Hong Kong, Special Administrative Region, two stores in Taiwan, and two stores in Macao, Special Administration Region.

Retail locations operated by third parties under license and supply arrangements are not included in the above table. As of August 1, 2021, there were eight licensed locations, including four in Mexico, three in the United Arab Emirates, and one in Qatar.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk. The functional currency of our international subsidiaries is generally the applicable local currency. Our consolidated financial statements are presented in U.S. dollars. Therefore, the net revenue, expenses, assets, and liabilities of our international subsidiaries are translated from their functional currencies into U.S. dollars. Fluctuations in the value of the U.S. dollar affect the reported amounts of net revenue, expenses, assets, and liabilities. Foreign currency exchange differences which arise on translation of our international subsidiaries' balance sheets into U.S. dollars are recorded as a foreign currency translation adjustment in accumulated other comprehensive income or loss within stockholders' equity.

We also have exposure to changes in foreign currency exchange rates associated with transactions which are undertaken by our subsidiaries in currencies other than their functional currency. Such transactions include intercompany transactions and inventory purchases denominated in currencies other than the functional currency of the purchasing entity. As a result, we have been impacted by changes in foreign currency exchange rates and may be impacted for the foreseeable future. The potential impact of currency fluctuation increases as our international expansion increases.

As of August 1, 2021, we had certain forward currency contracts outstanding in order to hedge a portion of the foreign currency exposure that arises on translation of a Canadian subsidiary into U.S. dollars. We also had certain forward currency contracts outstanding in an effort to reduce our exposure to the foreign currency exchange revaluation gains and losses that are recognized by our Canadian and Chinese subsidiaries on U.S. dollar denominated monetary assets and liabilities. Please refer to Note 7. Derivative Financial Instruments included in Item 1 of Part I of this report for further information, including details of the notional amounts outstanding.

In the future, in an effort to reduce foreign currency exchange risks, we may enter into further derivative financial instruments including hedging additional currency pairs. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

We currently generate a significant portion of our net revenue and incur a significant portion of our expenses in Canada. We also hold a significant portion of our net assets in Canada. The reporting currency for our consolidated financial statements is the U.S. dollar. A strengthening of the U.S. dollar against the Canadian dollar results in:

- the following impacts to the consolidated statements of operations:
 - a decrease in our net revenue upon translation of the sales made by our Canadian operations into U.S. dollars for the purposes of consolidation;
 - a decrease in our selling, general and administrative expenses incurred by our Canadian operations upon translation into U.S. dollars for the purposes of consolidation;
 - foreign currency exchange revaluation gains by our Canadian subsidiaries on U.S. dollar denominated monetary assets and liabilities; and
 - derivative valuation losses on forward currency contracts not designated in a hedging relationship;
- the following impacts to the consolidated balance sheets:
 - a decrease in the foreign currency translation adjustment which arises on the translation of our Canadian subsidiaries' balance sheets into U.S. dollars; and
 - an increase in the foreign currency translation adjustment from derivative valuation losses on forward currency contracts, entered into as net investment hedges of a Canadian subsidiary.

During the first two quarters of 2021, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$23.2 million reduction in accumulated other comprehensive loss within stockholders' equity. During the first two quarters of 2020, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$14.6 million increase in accumulated other comprehensive loss within stockholders' equity.

A 10% appreciation in the relative value of the U.S. dollar against the Canadian dollar compared to the foreign currency exchange rates in effect for the first two quarters of 2021 would have resulted in lower income from operations of approximately \$15.0 million. This assumes a consistent 10% appreciation in the U.S. dollar against the Canadian dollar over the first two quarters of 2021. The timing of changes in the relative value of the U.S. dollar combined with the seasonal nature of our business, can affect the magnitude of the impact that fluctuations in foreign currency exchange rates have on our income from operations.

Interest Rate Risk. Our committed revolving credit facility provides us with available borrowings in an amount up to \$400.0 million. Because our revolving credit facilities bear interest at a variable rate, we will be exposed to market risks relating to changes in interest rates, if we have a meaningful outstanding balance. As of August 1, 2021, aside from letters of credit of \$2.8 million, there were no borrowings outstanding under these credit facilities. We currently do not engage in any interest rate hedging activity and currently have no intention to do so. However, in the future, if we have a meaningful outstanding balance under our revolving facility, in an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. These may take the form of forward contracts, option contracts, or interest rate swaps. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

Our cash and cash equivalent balances are held in the form of cash on hand, bank balances, short-term deposits and treasury bills with original maturities of three months or less, and in money market funds. We do not believe these balances are subject to material interest rate risk.

Credit Risk. We have cash on deposit with various large, reputable financial institutions and have invested in U.S. and Canadian Treasury Bills, and in AAA-rated money market funds. The amount of cash and cash equivalents held with certain financial institutions exceeds government-insured limits. We are also exposed to credit-related losses in the event of nonperformance by the financial institutions that are counterparties to our forward currency contracts. The credit risk amount is our unrealized gains on our derivative instruments, based on foreign currency rates at the time of nonperformance. We have not experienced any losses related to these items, and we believe credit risk to be minimal. We seek to minimize our credit risk by entering into transactions with credit worthy and reputable financial institutions and by monitoring the credit standing of the financial institutions with whom we transact. We seek to limit the amount of exposure with any one counterparty.

Inflation

Inflationary factors such as increases in the cost of our product and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net revenue if the selling prices of our products do not increase with these increased costs.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial and accounting officer, to allow timely decisions to be made regarding required disclosure. We have established a Disclosure Committee, consisting of certain members of management, to assist in this evaluation. The Disclosure Committee meets on a quarterly basis, and as needed.

Our management, including our principal executive officer and principal financial and accounting officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) at August 1, 2021. Based on that evaluation, our principal executive officer and principal financial and accounting officer concluded that, at August 1, 2021, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting during the quarter ended August 1, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In addition to the legal matters described in Note 12. Legal Proceedings and Other Contingencies included in Item 1 of Part I of this report and in our 2020 Annual Report on Form 10-K, we are, from time to time, involved in routine legal matters incidental to the conduct of our business, including legal matters such as initiation and defense of proceedings to protect intellectual property rights, personal injury claims, product liability claims, employment claims, and similar matters. We believe the ultimate resolution of any such current proceeding will not have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Form 10-Q and in our 2020 Annual Report on Form 10-K, the following risk factors should be considered in evaluating our business. Our business, financial condition, or results of operations could be materially adversely affected as a result of any of these risks. Please note that additional risks not presently known to us or that we currently deem immaterial could also impair our business and operations.

Risks related to our business and industry

Our success depends on our ability to maintain the value and reputation of our brand.

The lululemon name is integral to our business as well as to the implementation of our expansion strategies. Maintaining, promoting, and positioning our brand will depend largely on the success of our marketing and merchandising efforts and our ability to provide a consistent, high quality product, and guest experience. We rely on social media, as one of our marketing strategies, to have a positive impact on both our brand value and reputation. Our brand and reputation could be adversely affected if we fail to achieve these objectives, if our public image was to be tarnished by negative publicity, which could be amplified by social media, if we fail to deliver innovative and high quality products acceptable to our guests, or if we face or mishandle a product recall. Our reputation could also be impacted by adverse publicity, whether or not valid, regarding allegations that we, or persons associated with us or formerly associated with us, have violated applicable laws or regulations, including but not limited to those related to safety, employment, discrimination, harassment, whistle-blowing, privacy, corporate citizenship, improper business practices, or cybersecurity. Certain activities on the part of stakeholders, including nongovernmental organizations and governmental institutions, could cause reputational damage, distract senior management, and disrupt our business. Additionally, while we devote considerable effort and resources to protecting our intellectual property, if these efforts are not successful the value of our brand may be harmed. Any harm to our brand and reputation could have a material adverse effect on our financial condition.

The current COVID-19 coronavirus pandemic and related government, private sector, and individual consumer responsive actions have and could continue to affect our business operations, store traffic, employee availability, supply chain, financial condition, liquidity, and cash flow.

The COVID-19 pandemic has negatively impacted the global economy, disrupted consumer spending and global supply chains, and created significant volatility and disruption of financial markets. COVID-19 has impacted our business and operations, and we expect this to continue and could adversely impact our financial results.

The spread of COVID-19 has caused health officials to impose restrictions and recommend precautions to mitigate the spread of the virus, especially when congregating in heavily populated areas, such as malls and lifestyle centers. Our stores have experienced temporary closures, and we have implemented precautionary measures in line with guidance from local authorities in the stores that are open. These measures include restrictions such as limitations on the number of guests allowed in our stores at any single time, minimum physical distancing requirements, and limited operating hours. We do not know how the measures recommended by local authorities or implemented by us may change over time or what the duration of these restrictions will be.

Further resurgences in COVID-19 cases, including from variants, could cause additional restrictions, including temporarily closing all or some of our stores again. An outbreak at one of our locations, even if we follow appropriate precautionary measures, could negatively impact our employees, guests, and brand. There is uncertainty over the impact of COVID-19 on the U.S., Canadian, and global economies, consumer willingness to visit stores, malls, and lifestyle centers, and employee willingness to staff our stores as the pandemic continues and if there are future resurgences. There is also uncertainty regarding potential long-term changes to consumer shopping behavior and preferences and whether consumer demand will recover when restrictions are lifted.

The COVID-19 pandemic also has the potential to significantly impact our supply chain if the factories that manufacture our products, the distribution centers where we manage our inventory, or the operations of our logistics and other service providers are disrupted, temporarily closed, or experience worker shortages. In particular, we have seen disruptions and delays in shipments and we may see negative impacts to pricing of certain components of our products as a result of the COVID-19 pandemic.

The COVID-19 situation is changing rapidly and the extent to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of COVID-19 and its variants and the actions taken to contain it or treat its impact, including vaccinations.

Changes in consumer shopping preferences, and shifts in distribution channels could materially impact our results of operations.

We sell our products through a variety of channels, with a significant portion through traditional brick-and-mortar retail channels. The COVID-19 pandemic has shifted guest shopping preferences away from brick-and-mortar and towards digital platforms. As strong e-commerce channels emerge and develop, we are evolving towards an omni-channel approach to support the shopping behavior of our guests. This involves country and region specific websites, social media, product notification emails, mobile apps, including mobile apps on in-store devices that allow demand to be fulfilled via our distribution centers, and online order fulfillment through stores. The diversion of sales from our company-operated stores could adversely impact our return on investment and could lead to impairment charges and store closures, including lease exit costs. We could have difficulty in recreating the in-store experience through direct channels. Our failure to successfully integrate our digital and physical channels and respond to these risks might adversely impact our business and results of operations, as well as damage our reputation and brands.

If any of our products have manufacturing or design defects or are otherwise unacceptable to us or our guests, our business could be harmed.

We have occasionally received, and may in the future receive, shipments of products that fail to comply with our technical specifications or that fail to conform to our quality control standards. We have also received, and may in the future receive, products that are otherwise unacceptable to us or our guests. Under these circumstances, unless we are able to obtain replacement products in a timely manner, we risk the loss of net revenue resulting from the inability to sell those products and related increased administrative and shipping costs. Additionally, if the unacceptability of our products is not discovered until after such products are sold, our guests could lose confidence in our products or we could face a product recall and our results of operations could suffer and our business, reputation, and brand could be harmed.

Our MIRROR subsidiary offers complex hardware and software products and services that can be affected by design and manufacturing defects. Sophisticated operating system software and applications, such as those offered by MIRROR, often have issues that can unexpectedly interfere with the intended operation of hardware or software products. Defects may also exist in components and products that we source from third parties. Any defects could make our products and services unsafe and create a risk of environmental or property damage or personal injury and we may become subject to the hazards and uncertainties of product liability claims and related litigation. The occurrence of real or perceived defects in any of our products, now or in the future, could result in additional negative publicity, regulatory investigations, or lawsuits filed against us, particularly if guests or others who use or purchase our MIRROR products are injured. Even if injuries are not the result of any defects, if they are perceived to be, we may incur expenses to defend or settle any claims and our brand and reputation may be harmed.

We operate in a highly competitive market and the size and resources of some of our competitors may allow them to compete more effectively than we can, resulting in a loss of our market share and a decrease in our net revenue and profitability.

The market for technical athletic apparel is highly competitive. Competition may result in pricing pressures, reduced profit margins or lost market share, or a failure to grow or maintain our market share, any of which could substantially harm our business and results of operations. We compete directly against wholesalers and direct retailers of athletic apparel, including large, diversified apparel companies with substantial market share, and established companies expanding their production and marketing of technical athletic apparel, as well as against retailers specifically focused on women's athletic apparel. We also face competition from wholesalers and direct retailers of traditional commodity athletic apparel, such as cotton T-shirts and sweatshirts. Many of our competitors are large apparel and sporting goods companies with strong worldwide brand recognition. Because of the fragmented nature of the industry, we also compete with other apparel sellers, including those specializing in yoga apparel and other activewear. Many of our competitors have significant competitive advantages, including longer operating histories, larger and broader customer bases, more established relationships with a

broader set of suppliers, greater brand recognition and greater financial, research and development, store development, marketing, distribution, and other resources than we do.

Our competitors may be able to achieve and maintain brand awareness and market share more quickly and effectively than we can. In contrast to our grassroots community-based marketing approach, many of our competitors promote their brands through traditional forms of advertising, such as print media and television commercials, and through celebrity endorsements, and have substantial resources to devote to such efforts. Our competitors may also create and maintain brand awareness using traditional forms of advertising more quickly than we can. Our competitors may also be able to increase sales in their new and existing markets faster than we do by emphasizing different distribution channels than we do, such as catalog sales or an extensive franchise network.

In addition, because we hold limited patents and exclusive intellectual property rights in the technology, fabrics or processes underlying our products, our current and future competitors are able to manufacture and sell products with performance characteristics, fabrication techniques, and styling similar to our products.

Our sales and profitability may decline as a result of increasing costs and decreasing selling prices.

Our business is subject to significant pressure on costs and pricing caused by many factors, including intense competition, constrained sourcing capacity and related inflationary pressure, the availability of qualified labor and wage inflation, pressure from consumers to reduce the prices we charge for our products, and changes in consumer demand. These factors may cause us to experience increased costs, reduce our prices to consumers or experience reduced sales in response to increased prices, any of which could cause our operating margin to decline if we are unable to offset these factors with reductions in operating costs and could have a material adverse effect on our financial condition, operating results, and cash flows.

If we are unable to anticipate consumer preferences and successfully develop and introduce new, innovative, and differentiated products, we may not be able to maintain or increase our sales and profitability.

Our success depends on our ability to identify and originate product trends as well as to anticipate and react to changing consumer demands in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. If we are unable to introduce new products or novel technologies in a timely manner or our new products or technologies are not accepted by our guests, our competitors may introduce similar products in a more timely fashion, which could hurt our goal to be viewed as a leader in technical athletic apparel innovation. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of athletic apparel or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes. Our failure to anticipate and respond in a timely manner to changing consumer preferences could lead to, among other things, lower sales and excess inventory levels. Even if we are successful in anticipating consumer preferences, our ability to adequately react to and address those preferences will in part depend upon our continued ability to develop and introduce innovative, high-quality products. Our failure to effectively introduce new products that are accepted by consumers could result in a decrease in net revenue and excess inventory levels, which could have a material adverse effect on our financial condition.

Our results of operations could be materially harmed if we are unable to accurately forecast guest demand for our products.

To ensure adequate inventory supply, we must forecast inventory needs and place orders with our manufacturers based on our estimates of future demand for particular products. Our ability to accurately forecast demand for our products could be affected by many factors, including an increase or decrease in guest demand for our products or for products of our competitors, our failure to accurately forecast guest acceptance of new products, product introductions by competitors, unanticipated changes in general market conditions (for example, because of unexpected effects on inventory supply and consumer demand caused by the current COVID-19 coronavirus pandemic), and weakening of economic conditions or consumer confidence in future economic conditions. If we fail to accurately forecast guest demand, we may experience excess inventory levels or a shortage of products available for sale in our stores or for delivery to guests.

Inventory levels in excess of guest demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would cause our gross margin to suffer and could impair the strength and exclusivity of our brand. Conversely, if we underestimate guest demand for our products, our manufacturers may not be able to deliver products to meet our requirements, and this could result in damage to our reputation and guest relationships.

Our limited operating experience and limited brand recognition in new international markets and new product categories may limit our expansion and cause our business and growth to suffer.

Our future growth depends in part on our expansion efforts outside of North America. We have limited experience with regulatory environments and market practices internationally, and we may not be able to penetrate or successfully operate in any new market. In connection with our expansion efforts we may encounter obstacles we did not face in North America, including cultural and linguistic differences, differences in regulatory environments, labor practices and market practices, difficulties in keeping abreast of market, business and technical developments, and international guests' tastes and preferences. We may also encounter difficulty expanding into new international markets because of limited brand recognition leading to delayed acceptance of our technical athletic apparel by guests in these new international markets. Our failure to develop our business in new international markets or disappointing growth outside of existing markets could harm our business and results of operations.

In addition, our continued growth depends in part on our ability to expand our product categories and introduce new product lines. We may not be able to successfully manage integration of new product categories or the new product lines with our existing products. Selling new product categories and lines will require our management to learn different strategies in order to be successful. We may be unsuccessful in entering new product categories and developing or launching new product lines, which requires management of new suppliers, potential new customers, and new business models. Our management may not have the experience of selling in these new product categories and we may not be able to grow our business as planned. For example, in July 2020, we acquired MIRROR, an in-home fitness company with an interactive workout platform that features live and on-demand classes. If we are unable to effectively and successfully further develop these and future new product categories and lines, we may not be able to increase or maintain our sales and our operating margins may be adversely affected.

We may not realize the potential benefits and synergies sought with the acquisition of MIRROR.

During 2020, we acquired MIRROR as part of our growth plan, which includes driving business through omni-guest experiences. The potential benefits of enhancing our digital and interactive capabilities and deepening our roots in the sweatlife might not be realized fully, if at all. Further, the expected synergies between lululemon and MIRROR, such as those related to our connections with our guests and communities as well as our store and direct to consumer infrastructure, may not materialize. A significant portion of the purchase price was allocated to goodwill and if our acquisition does not yield expected returns, we may be required to record impairment charges, which would adversely affect our results of operations.

Our management team has limited experience in addressing the challenges of integrating management teams, strategies, cultures, and organizations of two companies. This integration may divert the attention of management and cause additional expenses. Management also has limited experience outside of the retail industry, including with the specialized hardware and software sold and licensed by MIRROR. If MIRROR has inadequate or ineffective controls and procedures, our internal control over financial reporting could be adversely impacted. The acquisition may not be well received by the customers or employees of either company, and this could hurt our brand and result in the loss of key employees. If we are unable to successfully integrate MIRROR, including its people and technologies, we may not be able to manage operations efficiently, which could adversely affect our results of operations. The acquisition of MIRROR may also divert management time and other resources away from our existing business.

In addition, we may, from time to time, evaluate and pursue other strategic investments or acquisitions. These involve various inherent risks and the benefits sought may not be realized. The acquisition of MIRROR or other strategic investments or acquisitions may not create value and may harm our brand and adversely affect our business, financial condition, and results of operations.

We may not be able to grow the MIRROR business and have it achieve profitability.

We may be unable to attract and retain subscribers to MIRROR. If we do not provide the delivery and installation service that our guests expect, offer engaging and innovative classes, and support and continue to improve the technology used, we may not be able to maintain and grow the number of subscribers. This could adversely impact our results of operations.

We are dependent on information technology systems to provide live and recorded classes to our customers with MIRROR subscriptions, to maintain its software, and to manage subscriptions. If we experience issues such as cybersecurity threats or actions, or interruptions or delays in our information technology systems, the data privacy and overall experience of subscribers could be negatively impacted and could therefore damage our brand and adversely affect our results of operations.

Competition, including from other in-home fitness providers as well as in-person fitness studios, and trends of consumer preferences, could also impact the level of subscriptions and therefore our results of operations.

If we continue to grow at a rapid pace, we may not be able to effectively manage our growth and the increased complexity of our business and as a result our brand image and financial performance may suffer.

We have expanded our operations rapidly since our inception in 1998 and our net revenue has increased from \$40.7 million in fiscal 2004 to \$4.4 billion in 2020. If our operations continue to grow at a rapid pace, we may experience difficulties in obtaining sufficient raw materials and manufacturing capacity to produce our products, as well as delays in production and shipments, as our products are subject to risks associated with overseas sourcing and manufacturing. We could be required to continue to expand our sales and marketing, product development and distribution functions, to upgrade our management information systems and other processes and technology, and to obtain more space for our expanding workforce. This expansion could increase the strain on our resources, and we could experience operating difficulties, including difficulties in hiring, training, and managing an increasing number of employees. These difficulties could result in the erosion of our brand image which could have a material adverse effect on our financial condition.

We are subject to risks associated with leasing retail and distribution space subject to long-term and non-cancelable leases.

We lease the majority of our stores under operating leases and our inability to secure appropriate real estate or lease terms could impact our ability to grow. Our leases generally have initial terms of between five and 15 years, and generally can be extended in five-year increments if at all. We generally cannot cancel these leases at our option. If an existing or new store is not profitable, and we decide to close it, as we have done in the past and may do in the future, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Similarly, we may be committed to perform our obligations under the applicable leases even if current locations of our stores become unattractive as demographic patterns change. In addition, as each of our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could require us to close stores in desirable locations.

We also lease the majority of our distribution centers and our inability to secure appropriate real estate or lease terms could impact our ability to deliver our products to the market.

We may not be able to successfully open new store locations in a timely manner, if at all, which could harm our results of operations.

Our growth will largely depend on our ability to successfully open and operate new stores. We may be unsuccessful in identifying new locations and markets where our technical athletic apparel and other products and brand image will be accepted. In addition, we may not be able to open or profitably operate new stores in existing, adjacent, or new markets due to the impact of COVID-19, which could have a material adverse effect on us.

Our future success is substantially dependent on the service of our senior management and other key employees.

In the last few years, we have had changes to our senior management team including new hires, departures, and role and responsibility changes. The performance of our senior management team and other key employees may not meet our needs and expectations. Also, the loss of services of any of these key employees, or any negative public perception with respect to these individuals, may be disruptive to, or cause uncertainty in, our business and could have a negative impact on our ability to manage and grow our business effectively. Such disruption could have a material adverse impact on our financial performance, financial condition, and the market price of our stock.

Our business is affected by seasonality.

Our business is affected by the general seasonal trends common to the retail apparel industry. This seasonality may adversely affect our business and cause our results of operations to fluctuate.

Risks related to our supply chain

Disruptions of our supply chain could have a material adverse effect on our operating and financial results.

Disruption of our supply chain capabilities due to trade restrictions, political instability, severe weather, natural disasters, public health crises such as the ongoing COVID-19 pandemic, terrorism, product recalls, labor supply or stoppages, the financial or operational instability of key suppliers and carriers, or other reasons could impair our ability to distribute our products. To the extent we are unable to mitigate the likelihood or potential impact of such events, there could be a material adverse effect on our operating and financial results.

Our reliance on suppliers to provide fabrics for and to produce our products could cause problems if we experience a supply chain disruption and we are unable to secure additional suppliers of fabrics or other raw materials, or manufacturers of our end products.

The entire apparel industry, including our company, continues to face supply chain challenges as a result of COVID-19 including reduced freight availability and increased costs, port disruption, manufacturing facility closures, and related labor shortages and other supply chain disruptions. We do not manufacture our products or the raw materials for them and rely instead on suppliers. Many of the specialty fabrics used in our products are technically advanced textile products developed and manufactured by third parties and may be available, in the short-term, from only one or a limited number of sources. We have no long-term contracts with any of our suppliers or manufacturers for the production and supply of our raw materials and products, and we compete with other companies for fabrics, other raw materials, and production. The following statistics are based on cost.

We work with a group of approximately 40 vendors that manufacture our products, five of which produced 59% of our products in 2020. During 2020, the largest single manufacturer produced approximately 17% of our products. During 2020, approximately 33% of our products were manufactured in Vietnam, 20% in Cambodia, 12% in Sri Lanka, and 9% in the PRC, including 2% in Taiwan.

We work with a group of approximately 65 suppliers to provide the fabrics for our products. In 2020, 65% of our fabrics were produced by our top five fabric suppliers, and the largest single manufacturer produced approximately 29% of fabric used. During 2020, approximately 45% of our fabrics originated from Taiwan, 18% from Mainland China, 16% from Sri Lanka, and the remainder from other regions.

We also source other raw materials which are used in our products, including items such as content labels, elastics, buttons, clasps, and drawcords from suppliers located predominantly in the Asia Pacific region.

We have experienced, and may in the future experience, a significant disruption in the supply of fabrics or raw materials and may be unable to locate alternative suppliers of comparable quality at an acceptable price, or at all. In addition, if we experience significant increased demand, or if we need to replace an existing supplier or manufacturer, we may be unable to locate additional supplies of fabrics or raw materials or additional manufacturing capacity on terms that are acceptable to us, or at all, or we may be unable to locate any supplier or manufacturer with sufficient capacity to meet our requirements or fill our orders in a timely manner. Identifying a suitable supplier is an involved process that requires us to become satisfied with its quality control, responsiveness and service, financial stability, and labor and other ethical practices. Even if we are able to expand existing or find new manufacturing or fabric sources, we may encounter delays in production and added costs as a result of the time it takes to train our suppliers and manufacturers in our methods, products, and quality control standards.

Our supply of fabric or manufacture of our products could be disrupted or delayed by the impact of health pandemics, including the current COVID-19 pandemic, and the related government and private sector responsive actions such as border closures, restrictions on product shipments, and travel restrictions. Delays related to supplier changes could also arise due to an increase in shipping times if new suppliers are located farther away from our markets or from other participants in our supply chain. The receipt of inventory sourced from areas impacted by COVID-19 has been slowed or disrupted and our manufacturers may also face similar challenges in receiving fabric and fulfilling our orders. In addition, ocean freight capacity issues continue to persist worldwide due to COVID-19 as there is much greater demand for shipping and reduced capacity and equipment. Any delays, interruption, or increased costs in the supply of fabric or manufacture of our products could have an adverse effect on our ability to meet guest demand for our products and result in lower net revenue and income from operations both in the short and long term.

Our business could be harmed if our suppliers and manufacturers do not comply with our Vendor Code of Ethics or applicable laws.

While we require our suppliers and manufacturers to comply with our Vendor Code of Ethics, which includes labor, health and safety, and environment standards, we do not control their practices. If suppliers or contractors do not comply with these standards or applicable laws or there is negative publicity regarding the production methods of any of our suppliers or manufacturers, even if unfounded or not material to our supply chain, our reputation and sales could be adversely affected, we could be subject to legal liability, or could cause us to contract with alternative suppliers or manufacturing sources.

The fluctuating cost of raw materials could increase our cost of goods sold.

The fabrics used to make our products include synthetic fabrics whose raw materials include petroleum-based products. Our products also include silver and natural fibers, including cotton. Our costs for raw materials are affected by, among other

things, weather, consumer demand, speculation on the commodities market, the relative valuations and fluctuations of the currencies of producer versus consumer countries, and other factors that are generally unpredictable and beyond our control. Price inflation and global supply chain disruption could cause raw material costs to increase and have an adverse effect on our future margins. Increases in the cost of raw materials, including petroleum or the prices we pay for silver and our cotton yarn and cotton-based textiles, could have a material adverse effect on our cost of goods sold, results of operations, financial condition, and cash flows.

If we encounter problems with our distribution system, our ability to deliver our products to the market and to meet guest expectations could be harmed.

We rely on our distribution facilities for substantially all of our product distribution. Our distribution facilities include computer controlled and automated equipment, which means their operations may be subject to a number of risks related to security or computer viruses, the proper operation of software and hardware, electronic or power interruptions, or other system failures. In addition, our operations could also be interrupted by labor difficulties, extreme or severe weather conditions or by floods, fires, or other natural disasters near our distribution centers. If we encounter problems with our distribution system, our ability to meet guest expectations, manage inventory, complete sales, and achieve objectives for operating efficiencies could be harmed.

Increasing labor costs and other factors associated with the production of our products in South Asia and South East Asia could increase the costs to produce our products.

A significant portion of our products are produced in South Asia and South East Asia and increases in the costs of labor and other costs of doing business in the countries in this area could significantly increase our costs to produce our products and could have a negative impact on our operations and earnings. Factors that could negatively affect our business include labor shortages and increases in labor costs, difficulties and additional costs in transporting products manufactured from these countries to our distribution centers and significant revaluation of the currencies used in these countries, which may result in an increase in the cost of producing products. Also, the imposition of trade sanctions or other regulations against products imported by us from, or the loss of "normal trade relations" status with any country in which our products are manufactured, could significantly increase our cost of products and harm our business.

Risks related to information security and technology

We may be unable to safeguard against security breaches which could damage our customer relationships and result in significant legal and financial exposure.

As part of our normal operations, we receive confidential, proprietary, and personally identifiable information, including credit card information, and information about our customers, our employees, job applicants, and other third parties. Our business employs systems and websites that allow for the storage and transmission of this information. However, despite our safeguards and security processes and protections, security breaches could expose us to a risk of theft or misuse of this information, and could result in litigation and potential liability. The retail industry, in particular, has been the target of many recent cyber-attacks. We may not have the resources or technical sophistication to be able to anticipate or prevent rapidly evolving types of cyber-attacks. Attacks may be targeted at us, our vendors or customers, or others who have entrusted us with information. In addition, despite taking measures to safeguard our information security and privacy environment from security breaches, our customers and our business could still be exposed to risk. Actual or anticipated attacks may cause us to incur increasing costs including costs to deploy additional personnel and protection technologies, train employees and engage third party experts and consultants. Advances in computer capabilities, new technological discoveries or other developments may result in the technology used by us to protect transaction or other data being breached or compromised. Measures we implement to protect against cyber-attacks may also have the potential to impact our customers' shopping experience or decrease activity on our websites by making them more difficult to use. Data and security breaches can also occur as a result of non-technical issues including intentional or inadvertent breach by employees or persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. Any compromise or breach of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, and damage to our brand and reputation or other harm to our business.

Privacy and data protection laws increase our compliance burden.

We are subject to a variety of privacy and data protection laws and regulations that change frequently and have requirements that vary from jurisdiction to jurisdiction. For example, we are subject to significant compliance obligations under privacy laws such as the General Data Privacy Regulation ("GDPR") in the European Union, the Personal Information Protection and Electronic Documents Act ("PIPEDA") in Canada, and the California Consumer Privacy Act ("CCPA"). Some privacy laws prohibit the transfer of personal information to certain other jurisdictions. We are subject to privacy and data

protection audits or investigations by various government agencies. Our failure to comply with these laws subjects us to potential regulatory enforcement activity, fines, private litigation including class actions, and other costs. Our efforts to comply with privacy laws may complicate our operations and add to our compliance costs. A significant privacy breach or failure to comply with privacy or data protection laws might have a materially adverse impact on our reputation, business operations and our financial condition or results of operations.

Disruption of our information technology systems or unexpected network interruption could disrupt our business.

We are increasingly dependent on information technology systems and third-parties to operate our e-commerce websites, process transactions, respond to guest inquiries, manage inventory, purchase, sell and ship goods on a timely basis, and maintain cost-efficient operations. The failure of our information technology systems to operate properly or effectively, problems with transitioning to upgraded or replacement systems, or difficulty in integrating new systems, could adversely affect our business. In addition, we have e-commerce websites in the United States, Canada, and internationally. Our information technology systems, websites, and operations of third parties on whom we rely, may encounter damage or disruption or slowdown caused by a failure to successfully upgrade systems, system failures, viruses, computer "hackers", natural disasters, or other causes. These could cause information, including data related to guest orders, to be lost or delayed which could, especially if the disruption or slowdown occurred during the holiday season, result in delays in the delivery of products to our stores and guests or lost sales, which could reduce demand for our products and cause our sales to decline. The concentration of our primary offices, two of our distribution centers, and a number of our stores along the west coast of North America could amplify the impact of a natural disaster occurring in that area to our business, including to our information technology systems. In addition, if changes in technology cause our information systems to become obsolete, or if our information systems are inadequate to handle our growth, we could lose guests. We have limited back-up systems and redundancies, and our information technology systems and websites have experienced system failures and electrical outages in the past which have disrupted our operations. Any significant disruption in our information technology systems or websites could harm our reputation and credibility, and could have a material adverse effect on our business, financial condition, and results of operations.

Our technology-based systems that give our customers the ability to shop with us online may not function effectively.

Many of our customers shop with us through our e-commerce websites and mobile apps. Increasingly, customers are using tablets and smart phones to shop online with us and with our competitors and to do comparison shopping. We are increasingly using social media and proprietary mobile apps to interact with our customers and as a means to enhance their shopping experience. Any failure on our part to provide attractive, effective, reliable, user-friendly e-commerce platforms that offer a wide assortment of merchandise with rapid delivery options and that continually meet the changing expectations of online shoppers could place us at a competitive disadvantage, result in the loss of e-commerce and other sales, harm our reputation with customers, have a material adverse impact on the growth of our e-commerce business globally and could have a material adverse impact on our business and results of operations.

Risks related to environmental, social, and governance issues

Climate change, and related legislative and regulatory responses to climate change, may adversely impact our business.

There is increasing concern that a gradual rise in global average temperatures due to increased concentration of carbon dioxide and other greenhouse gases in the atmosphere will cause significant changes in weather patterns around the globe, an increase in the frequency, severity, and duration of extreme weather conditions and natural disasters, and water scarcity and poor water quality. These events could adversely impact the cultivation of cotton, which is a key resource in the production of our products, disrupt the operation of our supply chain and the productivity of our contract manufacturers, increase our production costs, impose capacity restraints and impact the types of apparel products that consumers purchase. These events could also compound adverse economic conditions and impact consumer confidence and discretionary spending. As a result, the effects of climate change could have a long-term adverse impact on our business and results of operations. In many countries, governmental bodies are enacting new or additional legislation and regulations to reduce or mitigate the potential impacts of climate change. If we, our suppliers, or our contract manufacturers are required to comply with these laws and regulations, or if we choose to take voluntary steps to reduce or mitigate our impact on climate change, we may experience increased costs for energy, production, transportation, and raw materials, increased capital expenditures, or increased insurance premiums and deductibles, which could adversely impact our operations. Inconsistency of legislation and regulations among jurisdictions may also affect the costs of compliance with such laws and regulations. Any assessment of the potential impact of future climate change legislation, regulations or industry standards, as well as any international treaties and accords, is uncertain given the wide scope of potential regulatory change in the countries in which we operate.

Increased scrutiny from investors and others regarding our environmental, social, governance, or sustainability, responsibilities could result in additional costs or risks and adversely impact our reputation, employee retention, and willingness of customers and suppliers to do business with us.

Investor advocacy groups, certain institutional investors, investment funds, other market participants, stockholders, and customers have focused increasingly on the environmental, social and governance ("ESG") or "sustainability" practices of companies. These parties have placed increased importance on the implications of the social cost of their investments. If our ESG practices do not meet investor or other industry stakeholder expectations and standards, which continue to evolve, our brand, reputation and employee retention may be negatively impacted based on an assessment of our ESG practices. Any sustainability report that we publish or otherwise sustainability disclosure we make may include our policies and practices on a variety of social and ethical matters, including corporate governance, environmental compliance, employee health and safety practices, human capital management, product quality, supply chain management, and workforce inclusion and diversity. It is possible that stakeholders may not be satisfied with our ESG practices or the speed of their adoption. We could also incur additional costs and require additional resources to monitor, report, and comply with various ESG practices. Also, our failure, or perceived failure, to meet the standards included in any sustainability disclosure could negatively impact our reputation, employee retention, and the willingness of our customers and suppliers to do business with us.

Risks related to global economic, political, and regulatory conditions

An economic recession, depression, downturn or economic uncertainty in our key markets may adversely affect consumer discretionary spending and demand for our products.

Many of our products may be considered discretionary items for consumers. Some of the factors that may influence consumer spending on discretionary items include general economic conditions, high levels of unemployment, health pandemics (such as the impact of the current COVID-19 coronavirus pandemic, including reduced store traffic and widespread temporary closures of retail locations), higher consumer debt levels, reductions in net worth based on market declines and uncertainty, home foreclosures and reductions in home values, fluctuating interest and foreign currency exchange rates and credit availability, government austerity measures, fluctuating fuel and other energy costs, fluctuating commodity prices, tax rates and general uncertainty regarding the overall future economic environment. To date, COVID-19 and related restrictions and mitigation measures have negatively impacted the global economy and created significant volatility and disruption of financial markets. While the duration and severity of the economic impact of COVID-19 is unknown, any recession, depression or general downturn in the global economy could negatively affect consumer confidence and discretionary spending. As global economic conditions continue to be volatile or economic uncertainty remains, trends in consumer discretionary spending also remain unpredictable and subject to reductions due to credit constraints and uncertainties about the future. Unfavorable economic conditions may lead consumers to delay or reduce purchases of our products. Consumer demand for our products may not reach our targets, or may decline, when there is an economic downturn or economic uncertainty in our key markets. Our sensitivity to economic cycles and any related fluctuation in consumer demand may have a material adverse effect on our financial condition.

Global economic and political conditions and global events such as health pandemics could adversely impact our results of operations.

Uncertain or challenging global economic and political conditions could impact our performance, including our ability to successfully expand internationally. Global economic conditions could impact levels of consumer spending in the markets in which we operate, which could impact our sales and profitability. Political unrest could negatively impact our guests and employees, reduce consumer spending, and adversely impact our business and results of operations. Health pandemics, such as the current COVID-19 coronavirus pandemic, and the related governmental, private sector and individual consumer responses could contribute to a recession, depression, or global economic downturn, reduce store traffic and consumer spending, result in temporary or permanent closures of retail locations, offices, and factories, and could negatively impact the flow of goods.

We may be unable to source and sell our merchandise profitably or at all if new trade restrictions are imposed or existing restrictions become more burdensome.

The United States and the countries in which our products are produced or sold have imposed and may impose additional quotas, duties, tariffs, or other restrictions or regulations, or may adversely adjust prevailing quota, duty, or tariff levels. The results of any audits or related disputes regarding these restrictions or regulations could have an adverse effect on our financial statements for the period or periods for which the applicable final determinations are made. Countries impose, modify, and remove tariffs and other trade restrictions in response to a diverse array of factors, including global and national economic and political conditions, which make it impossible for us to predict future developments regarding tariffs and other trade restrictions. Trade restrictions, including tariffs, quotas, embargoes, safeguards, and customs restrictions, could increase

the cost or reduce the supply of products available to us, could increase shipping times, or may require us to modify our supply chain organization or other current business practices, any of which could harm our business, financial condition, and results of operations.

We are dependent on international trade agreements and regulations. The countries in which we produce and sell our products could impose or increase tariffs, duties, or other similar charges that could negatively affect our results of operations, financial position, or cash flows.

Adverse changes in, or withdrawal from, trade agreements or political relationships between the United States and the PRC, Canada, or other countries where we sell or source our products, could negatively impact our results of operations or cash flows. Any tariffs imposed between the United States and the PRC could increase the costs of our products. General geopolitical instability and the responses to it, such as the possibility of sanctions, trade restrictions, and changes in tariffs, including recent sanctions against the PRC, tariffs imposed by the United States and the PRC, and the possibility of additional tariffs or other trade restrictions between the United States and Mexico, could adversely impact our business. It is possible that further tariffs may be introduced, or increased. Such changes could adversely impact our business and could increase the costs of sourcing our products from the PRC, or could require us to source more of our products from other countries.

There could be changes in economic conditions in the United Kingdom ("UK") or European Union ("EU"), including due to the UK's withdrawal from the EU, foreign currency exchange rates, and consumer markets. Our business could be adversely affected by these changes, including by additional duties on the importation of our products into the UK from the EU and as a result of shipping delays or congestion.

Changes in tax laws or unanticipated tax liabilities could adversely affect our effective income tax rate and profitability.

We are subject to the income tax laws of the United States, Canada, and several other international jurisdictions. Our effective income tax rates could be unfavorably impacted by a number of factors, including changes in the mix of earnings amongst countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, new tax interpretations and guidance, the outcome of income tax audits in various jurisdictions around the world, and any repatriation of unremitted earnings for which we have not previously accrued applicable U.S. income taxes and international withholding taxes. We may face unanticipated tax liabilities in connection with our acquisition of MIRROR.

Repatriations from our Canadian subsidiaries are not subject to Canadian withholding taxes if such distributions are made as a return of capital. We have not accrued for any Canadian withholding taxes that could be payable on future repatriations from our Canadian subsidiaries because we believe the current net investment in our Canadian subsidiaries is expected to be indefinitely reinvested, or can be repatriated free of withholding tax. The extent to which future increases in the net assets of our Canadian subsidiaries can be repatriated free of withholding tax is dependent on, among other things, the amount of paid-up-capital in our Canadian subsidiaries and transactions undertaken by our exchangeable shareholders. We are unable to determine the timing and extent to which such transactions may occur. Accordingly, increases in our Canadian net assets may result in an increase to our effective tax rate.

We and our subsidiaries engage in a number of intercompany transactions across multiple tax jurisdictions. Although we believe that these transactions reflect the accurate economic allocation of profit and that proper transfer pricing documentation is in place, the profit allocation and transfer pricing terms and conditions may be scrutinized by local tax authorities during an audit and any resulting changes may impact our mix of earnings in countries with differing statutory tax rates. At the end of 2020, our Advance Pricing Arrangement ("APA") with the Internal Revenue Service and the Canada Revenue Agency expired. This APA stipulates the allocation of certain profits between the U.S. and Canada. We are currently in the process of negotiating the renewal of this arrangement and the final agreed upon terms and conditions thereof could impact our effective tax rate.

Current economic and political conditions make tax rules in any jurisdiction, including the United States and Canada, subject to significant change. Changes in applicable U.S., Canadian, or other international tax laws and regulations, or their interpretation and application, including the possibility of retroactive effect, could affect our income tax expense and profitability, as they did in fiscal 2017 and fiscal 2018 upon passage of the U.S. Tax Cuts and Jobs Act and in 2020 with the passage of the Coronavirus Aid, Relief, and Economic Security Act.

Our failure to comply with trade and other regulations could lead to investigations or actions by government regulators and negative publicity.

The labeling, distribution, importation, marketing, and sale of our products are subject to extensive regulation by various federal agencies, including the Federal Trade Commission, Consumer Product Safety Commission and state attorneys general in the United States, the Competition Bureau and Health Canada in Canada, as well as by various other federal, state, provincial, local, and international regulatory authorities in the countries in which our products are distributed or sold. If we

fail to comply with any of these regulations, we could become subject to enforcement actions or the imposition of significant penalties or claims, which could harm our results of operations or our ability to conduct our business. In addition, any audits and inspections by governmental agencies related to these matters could result in significant settlement amounts, damages, fines, or other penalties, divert financial and management resources, and result in significant legal fees. An unfavorable outcome of any particular proceeding could have an adverse impact on our business, financial condition, and results of operations. In addition, the adoption of new regulations or changes in the interpretation of existing regulations may result in significant compliance costs or discontinuation of product sales and could impair the marketing of our products, resulting in significant loss of net revenue.

Our international operations are also subject to compliance with the U.S. Foreign Corrupt Practices Act, or FCPA, and other anti-bribery laws applicable to our operations. In many countries, particularly in those with developing economies, it may be a local custom that businesses operating in such countries engage in business practices that are prohibited by the FCPA or other U.S. and international laws and regulations applicable to us. Although we have implemented procedures designed to ensure compliance with the FCPA and similar laws, some of our employees, agents, or other partners, as well as those companies to which we outsource certain of our business operations, could take actions in violation of our policies. Any such violation could have a material and adverse effect on our business.

Because a significant portion of our net revenue and expenses are generated in countries other than the United States, fluctuations in foreign currency exchange rates have affected our results of operations and may continue to do so in the future.

The functional currency of our international subsidiaries is generally the applicable local currency. Our consolidated financial statements are presented in U.S. dollars. Therefore, the net revenue, expenses, assets, and liabilities of our international subsidiaries are translated from their functional currencies into U.S. dollars. Fluctuations in the value of the U.S. dollar affect the reported amounts of net revenue, expenses, assets, and liabilities. Foreign currency exchange differences which arise on translation of our international subsidiaries' balance sheets into U.S. dollars are recorded as a foreign currency translation adjustment in accumulated other comprehensive income or loss within stockholders' equity.

We also have exposure to changes in foreign currency exchange rates associated with transactions which are undertaken by our subsidiaries in currencies other than their functional currency. Such transactions include intercompany transactions and inventory purchases denominated in currencies other than the functional currency of the purchasing entity. As a result, we have been impacted by changes in foreign currency exchange rates and may be impacted for the foreseeable future. The potential impact of currency fluctuation increases as our international expansion increases.

Although we use financial instruments to hedge certain foreign currency risks, these measures may not succeed in fully offsetting the negative impact of foreign currency rate movements.

We are exposed to credit-related losses in the event of nonperformance by the counterparties to forward currency contracts used in our hedging strategies.

Risks related to intellectual property

Our fabrics and manufacturing technology generally are not patented and can be imitated by our competitors. If our competitors sell products similar to ours at lower prices, our net revenue and profitability could suffer.

The intellectual property rights in the technology, fabrics, and processes used to manufacture our products generally are owned or controlled by our suppliers and are generally not unique to us. Our ability to obtain intellectual property protection for our products is therefore limited. We hold limited patents and exclusive intellectual property rights in the technology, fabrics or processes underlying our products. As a result, our current and future competitors are able to manufacture and sell products with performance characteristics, fabrics and styling similar to our products. Because many of our competitors have significantly greater financial, distribution, marketing, and other resources than we do, they may be able to manufacture and sell products based on our fabrics and manufacturing technology at lower prices than we can. If our competitors sell products similar to ours at lower prices, our net revenue and profitability could suffer.

Our failure or inability to protect our intellectual property rights could diminish the value of our brand and weaken our competitive position.

We currently rely on a combination of copyright, trademark, trade dress, and unfair competition laws, as well as confidentiality procedures and licensing arrangements, to establish and protect our intellectual property rights. The steps we take to protect our intellectual property rights may not be adequate to prevent infringement of these rights by others, including imitation of our products and misappropriation of our brand. In addition, intellectual property protection may be unavailable or limited in some international countries where laws or law enforcement practices may not protect our

intellectual property rights as fully as in the United States or Canada, and it may be more difficult for us to successfully challenge the use of our intellectual property rights by other parties in these countries. If we fail to protect and maintain our intellectual property rights, the value of our brand could be diminished, and our competitive position may suffer.

Our trademarks and other proprietary rights could potentially conflict with the rights of others and we may be prevented from selling some of our products.

Our success depends in large part on our brand image. We believe that our trademarks and other proprietary rights have significant value and are important to identifying and differentiating our products from those of our competitors and creating and sustaining demand for our products. We have applied for and obtained some United States, Canada, and international trademark registrations, and will continue to evaluate the registration of additional trademarks as appropriate. However, some or all of these pending trademark applications may not be approved by the applicable governmental authorities. Moreover, even if the applications are approved, third parties may seek to oppose or otherwise challenge these registrations. Additionally, we may face obstacles as we expand our product line and the geographic scope of our sales and marketing. Third parties may assert intellectual property claims against us, particularly as we expand our business and the number of products we offer. Our defense of any claim, regardless of its merit, could be expensive and time consuming and could divert management resources. Successful infringement claims against us could result in significant monetary liability or prevent us from selling some of our products. In addition, resolution of claims may require us to redesign our products, license rights from third parties, or cease using those rights altogether. Any of these events could harm our business and cause our results of operations, liquidity, and financial condition to suffer.

Risks related to legal and governance matters

We are subject to periodic claims and litigation that could result in unexpected expenses and could ultimately be resolved against us.

From time to time, we are involved in litigation and other proceedings, including matters related to product liability claims, stockholder class action and derivative claims, commercial disputes and intellectual property, as well as trade, regulatory, employment, and other claims related to our business. Any of these proceedings could result in significant settlement amounts, damages, fines, or other penalties, divert financial and management resources, and result in significant legal fees. An unfavorable outcome of any particular proceeding could exceed the limits of our insurance policies or the carriers may decline to fund such final settlements and/or judgments and could have an adverse impact on our business, financial condition, and results of operations. In addition, any proceeding could negatively impact our reputation among our guests and our brand image.

Our business could be negatively affected as a result of actions of activist stockholders or others.

We may be subject to actions or proposals from stockholders or others that may not align with our business strategies or the interests of our other stockholders. Responding to such actions can be costly and time-consuming, disrupt our business and operations, and divert the attention of our board of directors, management, and employees from the pursuit of our business strategies. Such activities could interfere with our ability to execute our strategic plan. Activist stockholders or others may create perceived uncertainties as to the future direction of our business or strategy which may be exploited by our competitors and may make it more difficult to attract and retain qualified personnel and potential guests, and may affect our relationships with current guests, vendors, investors, and other third parties. In addition, a proxy contest for the election of directors at our annual meeting would require us to incur significant legal fees and proxy solicitation expenses and require significant time and attention by management and our board of directors. The perceived uncertainties as to our future direction also could affect the market price and volatility of our securities.

Anti-takeover provisions of Delaware law and our certificate of incorporation and bylaws could delay and discourage takeover attempts that stockholders may consider to be favorable.

Certain provisions of our certificate of incorporation and bylaws and applicable provisions of the Delaware General Corporation Law may make it more difficult or impossible for a third-party to acquire control of us or effect a change in our board of directors and management. These provisions include:

- the classification of our board of directors into three classes, with one class elected each year;
- prohibiting cumulative voting in the election of directors;
- the ability of our board of directors to issue preferred stock without stockholder approval;
- the ability to remove a director only for cause and only with the vote of the holders of at least 66 2/3% of our voting stock;

- a special meeting of stockholders may only be called by our chairman or Chief Executive Officer, or upon a resolution adopted by an affirmative vote of a majority of the board of directors, and not by our stockholders;
- prohibiting stockholder action by written consent; and
- our stockholders must comply with advance notice procedures in order to nominate candidates for election to our board of directors or to place stockholder proposals on the agenda for consideration at any meeting of our stockholders.

In addition, we are governed by Section 203 of the Delaware General Corporation Law which, subject to some specified exceptions, prohibits "business combinations" between a Delaware corporation and an "interested stockholder," which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation's voting stock, for a three-year period following the date that the stockholder became an interested stockholder. Section 203 could have the effect of delaying, deferring, or preventing a change in control that our stockholders might consider to be in their best interests.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information regarding our purchases of shares of our common stock during the second quarter of 2021 related to our stock repurchase program:

Period ⁽¹⁾	Total Number of Shares Purchased ⁽²⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
May 3, 2021 - May 30, 2021	126,219	\$ 319.68	126,219	\$ 375,825,940
May 31, 2021 - July 4, 2021	309,725	337.80	309,725	271,201,714
July 5, 2021 - August 1, 2021	69,573	375.15	69,573	245,101,151
Total	505,517		505,517	

⁽¹⁾ Monthly information is presented by reference to our fiscal periods during our second quarter of 2021.

⁽²⁾ On January 31, 2019, our board of directors approved a stock repurchase program of up to \$500 million of our common shares on the open market or in privately negotiated transactions. On December 1, 2020, our board of directors approved an increase in the remaining authorization of our existing stock repurchase program from \$264 million to \$500 million. The repurchase plan has no time limit and does not require the repurchase of a minimum number of shares. Common shares repurchased on the open market are at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934. The timing and actual number of common shares to be repurchased will depend upon market conditions, eligibility to trade, and other factors.

The following table provides information regarding our purchases of shares of our common stock during the second quarter of 2021 related to our Employee Share Purchase Plan:

Period ⁽¹⁾	Total Number of Shares Purchased ⁽²⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
May 3, 2021 - May 30, 2021	5,867	\$ 322.47	5,867	4,634,074
May 31, 2021 - July 4, 2021	5,485	350.88	5,485	4,628,589
July 5, 2021 - August 1, 2021	4,856	389.34	4,856	4,623,733
Total	16,208		16,208	

⁽¹⁾ Monthly information is presented by reference to our fiscal periods during our second quarter of 2021.

⁽²⁾ The ESPP was approved by our board of directors and stockholders in September 2007. All shares purchased under the ESPP are purchased on the Nasdaq Global Select Market (or such other stock exchange as we may designate). Unless our board terminates the ESPP earlier, it will continue until all shares authorized for purchase have been purchased. The maximum number of shares authorized to be purchased under the ESPP was 6,000,000.

Excluded from this disclosure are shares withheld to settle statutory employee tax withholding related to the vesting of stock-based compensation awards.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
31.1	Certification of principal executive officer Pursuant to Exchange Act Rule 13a-14(a)	X				
31.2	Certification of principal financial and accounting officer Pursuant to Exchange Act Rule 13a-14(a)	X				
32.1*	Certification of principal executive officer and principal financial and accounting officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					
101	The following unaudited interim consolidated financial statements from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 1, 2021, formatted in iXBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows (v) Notes to the Unaudited Interim Consolidated Financial Statements	X				

* Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

lululemon athletica inc.

By: /s/ MEGHAN FRANK

Meghan Frank

Chief Financial Officer

(principal financial and accounting officer)

Dated: September 8, 2021

Exhibit Index

Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
31.1	Certification of principal executive officer Pursuant to Exchange Act Rule 13a-14(a)	X				
31.2	Certification of principal financial and accounting officer Pursuant to Exchange Act Rule 13a-14(a)	X				
32.1*	Certification of principal executive officer and principal financial and accounting officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					
101	The following unaudited interim consolidated financial statements from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 1, 2021, formatted in iXBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows (v) Notes to the Unaudited Interim Consolidated Financial Statements	X				

* Furnished herewith.

I, Calvin McDonald, certify that:

1. I have reviewed this quarterly report on Form 10-Q of lululemon athletica inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ CALVIN McDONALD

Calvin McDonald

Chief Executive Officer and Director
(principal executive officer)

Date: September 8, 2021

I, Meghan Frank, certify that:

1. I have reviewed this quarterly report on Form 10-Q of lululemon athletica inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ MEGHAN FRANK

Meghan Frank

Chief Financial Officer

(principal financial and accounting officer)

Date: September 8, 2021

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of lululemon athletica inc. (the "Company") on Form 10-Q for the second quarter of fiscal 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ CALVIN McDONALD

Calvin McDonald

Chief Executive Officer and Director

(principal executive officer)

Date: September 8, 2021

By: /s/ MEGHAN FRANK

Meghan Frank

Chief Financial Officer

(principal financial and accounting officer)

Date: September 8, 2021

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.