

**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 May 1, 2022

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

As of May 27, 2022, there were 122,439,795 shares of the registrant's common stock, par value \$0.005 per share, outstanding.

*Exchangeable and Special Voting Shares:*

As of May 27, 2022, 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, as of May 27, 2022, 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.

**TABLE OF CONTENTS**

		Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>		
<b>Item 1.</b>	<b><u>Financial Statements:</u></b>	<b><u>3</u></b>
	Consolidated Balance Sheets	<u>3</u>
	Consolidated Statements of Operations and Comprehensive Income	<u>4</u>
	Consolidated Statements of Stockholders' Equity	<u>5</u>
	Consolidated Statements of Cash Flows	<u>6</u>
	Index for Notes to the Unaudited Interim Consolidated Financial Statements	<u>7</u>
<b>Item 2.</b>	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b><u>18</u></b>
<b>Item 3.</b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b><u>27</u></b>
<b>Item 4.</b>	<b><u>Controls and Procedures</u></b>	<b><u>29</u></b>
<b><u>PART II. OTHER INFORMATION</u></b>		
<b>Item 1.</b>	<b><u>Legal Proceedings</u></b>	<b><u>30</u></b>
<b>Item 1A.</b>	<b><u>Risk Factors</u></b>	<b><u>30</u></b>
<b>Item 2.</b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b><u>43</u></b>
<b>Item 6.</b>	<b><u>Exhibits</u></b>	<b><u>44</u></b>
	<b><u>Signatures</u></b>	<b><u>45</u></b>

**PART I**

**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**lululemon athletica inc.  
CONSOLIDATED BALANCE SHEETS**

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

	May 1, 2022	January 30, 2022
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 649,016	\$ 1,259,871
Accounts receivable	78,391	77,001
Inventories	1,275,040	966,481
Prepaid and receivable income taxes	116,281	118,928
Prepaid expenses and other current assets	184,512	192,572
	2,303,240	2,614,853
Property and equipment, net	974,784	927,710
Right-of-use lease assets	819,998	803,543
Goodwill	386,837	386,880
Intangible assets, net	69,103	71,299
Deferred income tax assets	6,090	6,091
Other non-current assets	137,160	132,102
	\$ 4,697,212	\$ 4,942,478
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 308,086	\$ 289,728
Accrued liabilities and other	362,938	330,800
Accrued compensation and related expenses	119,482	204,921
Current lease liabilities	178,273	188,996
Current income taxes payable	22,279	133,852
Unredeemed gift card liability	183,910	208,195
Other current liabilities	31,923	48,842
	1,206,891	1,405,334
Non-current lease liabilities	726,270	692,056
Non-current income taxes payable	28,555	38,074
Deferred income tax liabilities	53,061	53,352
Other non-current liabilities	14,385	13,616
	2,029,162	2,202,432
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; 122,732 and 123,297 issued and outstanding	614	616
Additional paid-in capital	412,713	422,507
Retained earnings	2,471,432	2,512,840
Accumulated other comprehensive loss	(216,709)	(195,917)
	2,668,050	2,740,046
	\$ 4,697,212	\$ 4,942,478

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	
	May 1, 2022	May 2, 2021
Net revenue	\$ 1,613,463	\$ 1,226,465
Cost of goods sold	743,070	526,151
Gross profit	870,393	700,314
Selling, general and administrative expenses	607,851	496,634
Amortization of intangible assets	2,195	2,195
Acquisition-related expenses	—	7,664
Income from operations	260,347	193,821
Other income (expense), net	(22)	227
Income before income tax expense	260,325	194,048
Income tax expense	70,327	49,092
Net income	\$ 189,998	\$ 144,956
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	\$ (25,848)	\$ 67,241
Net investment hedge gains (losses)	5,056	(23,605)
Other comprehensive income (loss), net of tax	\$ (20,792)	\$ 43,636
Comprehensive income	\$ 169,206	\$ 188,592
Basic earnings per share		
Basic earnings per share	\$ 1.48	\$ 1.11
Diluted earnings per share		
Diluted earnings per share	\$ 1.48	\$ 1.11
Basic weighted-average number of shares outstanding		
Basic weighted-average number of shares outstanding	128,077	130,358
Diluted weighted-average number of shares outstanding		
Diluted weighted-average number of shares outstanding	128,541	130,984

See accompanying notes to the unaudited interim consolidated financial statements

**lululemon athletica inc.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(Unaudited; Amounts in thousands)

	Quarter Ended May 1, 2022								
	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 30, 2022	5,203	5,203	\$ —	123,297	\$ 616	\$ 422,507	\$ 2,512,840	\$ (195,917)	\$2,740,046
Net income							189,998		189,998
Other comprehensive income (loss), net of tax								(20,792)	(20,792)
Stock-based compensation expense						18,358			18,358
Common stock issued upon settlement of stock-based compensation				239	2	5,141			5,143
Shares withheld related to net share settlement of stock-based compensation				(96)	—	(32,059)			(32,059)
Repurchase of common stock				(708)	(4)	(1,234)	(231,406)		(232,644)
Balance as of May 1, 2022	5,203	5,203	\$ —	122,732	\$ 614	\$ 412,713	\$ 2,471,432	\$ (216,709)	\$2,668,050

	Quarter Ended May 2, 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							144,956		144,956
Other comprehensive income (loss), net of tax								43,636	43,636
Stock-based compensation expense						14,932			14,932
Common stock issued upon settlement of stock-based compensation				324	2	4,493			4,495
Shares withheld related to net share settlement of stock-based compensation				(135)	(1)	(42,898)			(42,899)
Repurchase of common stock				(270)	(2)	(451)	(83,378)		(83,831)
Balance as of May 2, 2021	5,203	5,203	\$ —	125,069	\$ 625	\$ 364,743	\$ 2,408,006	\$ (133,519)	\$2,639,855

See accompanying notes to the unaudited interim consolidated financial statements

**lululemon athletica inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(Unaudited; Amounts in thousands)*

	Quarter Ended	
	May 1, 2022	May 2, 2021
Cash flows from operating activities		
Net income	\$ 189,998	\$ 144,956
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	64,470	50,485
Stock-based compensation expense	18,358	14,932
Settlement of derivatives not designated in a hedging relationship	(10,378)	21,515
Changes in operating assets and liabilities:		
Inventories	(320,607)	(74,218)
Prepaid and receivable income taxes	2,646	767
Prepaid expenses and other current assets	4,296	(11,104)
Other non-current assets	(4,523)	1,105
Accounts payable	20,630	19,623
Accrued liabilities and other	28,113	38,181
Accrued compensation and related expenses	(84,123)	22,764
Current and non-current income taxes payable	(119,959)	(5,433)
Unredeemed gift card liability	(23,816)	(15,838)
Right-of-use lease assets and current and non-current lease liabilities	7,115	1,820
Other current and non-current liabilities	(15,476)	4,554
Net cash provided by (used in) operating activities	(243,256)	214,109
Cash flows from investing activities		
Purchase of property and equipment	(111,352)	(64,225)
Settlement of net investment hedges	10,024	(21,239)
Net cash used in investing activities	(101,328)	(85,464)
Cash flows from financing activities		
Proceeds from settlement of stock-based compensation	5,143	4,495
Shares withheld related to net share settlement of stock-based compensation	(32,059)	(42,899)
Repurchase of common stock	(232,644)	(83,831)
Net cash used in financing activities	(259,560)	(122,235)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(6,711)	22,812
Increase (decrease) in cash and cash equivalents	(610,855)	29,222
Cash and cash equivalents, beginning of period	\$ 1,259,871	\$ 1,150,517
Cash and cash equivalents, end of period	\$ 649,016	\$ 1,179,739

See accompanying notes to the unaudited interim consolidated financial statements

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

Note 1	<a href="#">Nature of Operations and Basis of Presentation</a>	<a href="#">8</a>
Note 2	<a href="#">Recent Accounting Pronouncements</a>	<a href="#">8</a>
Note 3	<a href="#">Acquisition-Related Expenses</a>	<a href="#">9</a>
Note 4	<a href="#">Revolving Credit Facilities</a>	<a href="#">9</a>
Note 5	<a href="#">Stock-Based Compensation and Benefit Plans</a>	<a href="#">10</a>
Note 6	<a href="#">Fair Value Measurement</a>	<a href="#">11</a>
Note 7	<a href="#">Derivative Financial Instruments</a>	<a href="#">12</a>
Note 8	<a href="#">Earnings Per Share</a>	<a href="#">14</a>
Note 9	<a href="#">Supplementary Financial Information</a>	<a href="#">15</a>
Note 10	<a href="#">Segmented Information</a>	<a href="#">16</a>
Note 11	<a href="#">Net Revenue by Geography and Category</a>	<a href="#">17</a>
Note 12	<a href="#">Legal Proceedings and Other Contingencies</a>	<a href="#">17</a>
Note 13	<a href="#">Subsequent Event</a>	<a href="#">17</a>

**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 technical athletic apparel, footwear, 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, the People's Republic of China ("PRC"), Canada, Australia, the United Kingdom, South Korea, Germany, New Zealand, Japan, Singapore, Ireland, France, Malaysia, Sweden, the Netherlands, Norway, and Switzerland. There were 579 and 574 company-operated stores as of May 1, 2022 and January 30, 2022, respectively. The Company also engages in the design and retail of in-home fitness equipment and associated content subscriptions through its MIRROR brand.

***COVID-19 Pandemic***

The outbreak of a novel strain of coronavirus ("COVID-19") caused governments and public health officials to impose restrictions and recommend precautions to mitigate the spread of the virus. While most of the Company's retail locations were open throughout the first quarter of fiscal 2022 and 2021, certain locations were temporarily closed based on government and health authority guidance. Certain stores and the Company's third party distribution center in the PRC experienced temporary closures during the first quarter of 2022, and there is uncertainty regarding the ongoing impact of COVID-19 on its operations in the PRC. The pandemic has impacted its suppliers and its distribution and logistics providers, including in the PRC. There has been disruption in transportation and port congestion, an increase in freight costs, and the Company has increased its use of air freight.

***Basis of presentation***

The unaudited interim consolidated financial statements as of May 1, 2022 and for the quarters ended May 1, 2022 and May 2, 2021 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 30, 2022 is derived from the Company's audited consolidated financial statements and related notes for the fiscal year ended January 30, 2022, which are included in Item 8 in the Company's fiscal 2021 Annual Report on Form 10-K filed with the SEC on March 29, 2022. 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 2021 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 2022 will end on January 29, 2023 and will be a 52-week year. Fiscal 2021 was a 52-week year and ended on January 30, 2022. Fiscal 2022 and fiscal 2021 are referred to as "2022," and "2021," respectively. The first quarter of 2022 and 2021 ended on May 1, 2022 and May 2, 2021, 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***

The Company considers the applicability and impact of all Accounting Standard Updates ("ASUs"). ASUs adopted by the Company during the first quarter of 2022 not listed below 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.

In November 2021, the FASB issued ASC 832, Government Assistance to require annual disclosures about the nature of certain government assistance received, the accounting policy used to account for the transactions, the location in the financial statements where such transactions were recorded and significant terms and conditions associated with such transactions. The Company adopted this update prospectively during the first quarter of 2022 and it did not have a material impact on the Company's consolidated financial statements.

**Recently issued accounting pronouncements**

ASUs recently issued 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-Related Expenses**

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. In connection with the acquisition, the Company recognized certain acquisition-related expenses which were expensed within acquisition-related expenses in the consolidated statements of operations. The following table summarizes the acquisition-related expenses recognized:

	First Quarter	
	2022	2021
	<i>(in thousands)</i>	
Acquisition-related expenses:		
Transaction and integration costs	\$ —	\$ 496
Acquisition-related compensation	—	7,168
	\$ —	\$ 7,664
Income tax effects of acquisition-related expenses	\$ —	\$ (372)

**Note 4. Revolving Credit Facilities**

**North America revolving credit facility**

On December 14, 2021, the Company entered into an amended and restated credit agreement extending its existing credit facility, which provides for \$400.0 million in commitments under an unsecured five-year revolving credit facility. The credit facility has a maturity date of December 14, 2026, subject to extension under certain circumstances. Borrowings under the credit facility may be prepaid and commitments may be reduced or terminated without premium or penalty (other than customary breakage costs).

As of May 1, 2022, aside from letters of credit of \$3.1 million, the Company had no other borrowings outstanding under this credit facility.

Borrowings made under the credit facility bear interest at a rate per annum equal to, at the Company's option, either (a) a rate based on the Secured Overnight Financing Rate as administered by the Federal Reserve Bank of New York ("SOFR"), or (b) an alternate base rate, plus, in each case, an applicable margin. The applicable margin is 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 1.000%-1.375% for SOFR loans and 0.000%-0.375% for alternate base rate or Canadian prime rate loans. Additionally, a commitment fee of between 0.100%-0.200%, also determined by reference to the pricing grid, is payable on the average daily unused amounts under the credit facility.

The applicable interest rates and commitment fees are subject to adjustment based on certain sustainability key performance indicators ("KPIs"). The two KPIs are based on greenhouse gas emissions intensity reduction and gender pay equity, and the Company's performance against certain targets measured on an annual basis could result in positive or negative sustainability rate adjustments of 2.50 basis points to its drawn pricing and positive or negative sustainability fee adjustments of 0.50 basis points to its undrawn pricing.

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's financial covenants include maintaining an operating lease adjusted leverage ratio of not greater than 3.25:1.00 and the ratio of consolidated EBITDAR to consolidated interest charges (plus rent) of not less than 2.00:1.00. 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). If an event of default occurs, the credit agreement may be terminated, and the maturity of any outstanding amounts may be accelerated. As of May 1, 2022, the Company was in compliance with the covenants of the credit facility.

**China Mainland revolving credit facility**

In December 2019, the Company entered into an uncommitted and unsecured 130.0 million Chinese Yuan (\$19.7 million) revolving credit facility with terms that are reviewed on an annual basis. The credit facility was increased to 230.0 million Chinese Yuan (\$34.8 million) during 2020. It is comprised of a revolving loan of up to 200.0 million Chinese Yuan (\$30.3 million) and a financial guarantee facility of up to 30.0 million Chinese Yuan (\$4.5 million), 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 May 1, 2022, the Company was in compliance with the covenants and, aside from letters of credit of 6.1 million Chinese Yuan (\$0.9 million), there were no other 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 \$18.2 million and \$16.2 million for the first quarter of 2022 and 2021, respectively. Total unrecognized compensation cost for all stock-based compensation plans was \$170.0 million as of May 1, 2022, which is expected to be recognized over a weighted-average period of 2.5 years.

A summary of the balances of the Company's stock-based compensation plans as of May 1, 2022, and changes during the first quarter then ended, is presented below:

	Stock Options		Performance-Based Restricted Stock Units		Restricted Shares		Restricted Stock Units	
	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
<i>(In thousands, except per share amounts)</i>								
Balance as of January 30, 2022	789	\$ 186.10	167	\$ 225.27	4	\$ 326.70	238	\$ 265.90
Granted	172	376.92	114	273.49	—	—	93	376.92
Exercised/released	36	142.09	114	170.04	—	—	89	214.60
Forfeited/expired	5	261.38	2	304.24	—	—	4	317.78
Balance as of May 1, 2022	920	\$ 223.21	165	\$ 295.62	4	\$ 326.70	238	\$ 327.25
Exercisable as of May 1, 2022	415	\$ 152.79						

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 grant 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 grant date.

The grant date fair value of each stock option granted is estimated on the date of grant using the Black-Scholes model. The closing price of the Company's common stock on the grant date is used in the 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 exercise 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 quarter of 2022:

	First Quarter
	2022
Expected term	3.75 years
Expected volatility	40.00 %
Risk-free interest rate	2.51 %
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 first quarter of 2022, there were 21.6 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 \$3.4 million and \$2.8 million in the first quarter of 2022 and 2021, 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 May 1, 2022 and January 30, 2022, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis:

	May 1, 2022	Level 1	Level 2	Level 3	Balance Sheet Classification
<i>(In thousands)</i>					
Money market funds	\$ 200,316	\$ 200,316	\$ —	\$ —	Cash and cash equivalents
Term deposits	136,127	—	136,127	—	Cash and cash equivalents
Forward currency contract assets	21,722	—	21,722	—	Prepaid expenses and other current assets
Forward currency contract liabilities	15,353	—	15,353	—	Other current liabilities

	January 30, 2022	Level 1	Level 2	Level 3	Balance Sheet Classification
<i>(In thousands)</i>					
Money market funds	\$ 38,475	\$ 38,475	\$ —	\$ —	Cash and cash equivalents
Term deposits	318,698	—	318,698	—	Cash and cash equivalents
Forward currency contract assets	19,077	—	19,077	—	Prepaid expenses and other current assets
Forward currency contract liabilities	18,985	—	18,985	—	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 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 other comprehensive income (loss), net of tax 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 quarter of 2022.

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 quarter of 2022, 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 May 1, 2022, there were derivative assets of \$21.7 million and derivative liabilities of \$15.4 million subject to enforceable netting arrangements.

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

	May 1, 2022			January 30, 2022		
	Gross Notional	Assets	Liabilities	Gross Notional	Assets	Liabilities
<i>(In thousands)</i>						
Derivatives designated as net investment hedges:						
Forward currency contracts	\$ 1,081,000	\$ 15,290	\$ —	\$ 1,502,000	\$ 18,468	\$ —
Derivatives not designated in a hedging relationship:						
Forward currency contracts	1,195,495	6,432	15,353	1,597,878	609	18,985
Net derivatives recognized on consolidated balance sheets:						
Forward currency contracts		\$ 21,722	\$ 15,353		\$ 19,077	\$ 18,985

The forward currency contracts designated as net investment hedges outstanding as of May 1, 2022 mature on different dates between May 2022 and February 2023.

The forward currency contracts not designated in a hedging relationship outstanding as of May 1, 2022 mature on different dates between May 2022 and February 2023.

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

	First Quarter	
	2022	2021
<i>(In thousands)</i>		
Gains (losses) recognized in net investment hedge gains (losses):		
Derivatives designated as net investment hedges	\$ 6,847	\$ (31,986)

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:

	First Quarter	
	2022	2021
<i>(In thousands)</i>		
Gains (losses) recognized in selling, general and administrative expenses:		
Foreign currency exchange gains (losses)	\$ (1,743)	\$ (33,540)
Derivatives not designated in a hedging relationship	(892)	30,592
Net foreign currency exchange and derivative gains (losses)	\$ (2,635)	\$ (2,948)

**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:

	First Quarter	
	2022	2021
	<i>(In thousands, except per share amounts)</i>	
Net income	\$ 189,998	\$ 144,956
Basic weighted-average number of shares outstanding	128,077	130,358
Assumed conversion of dilutive stock options and awards	464	626
Diluted weighted-average number of shares outstanding	128,541	130,984
Basic earnings per share	\$ 1.48	\$ 1.11
Diluted earnings per share	\$ 1.48	\$ 1.11

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 the first quarter of 2022 and 2021, 0.1 million and 0.1 million stock options and awards, respectively, 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 December 1, 2020, it approved an increase in the remaining authorization from \$263.6 million to \$500.0 million, and on October 1, 2021, it approved an increase in the remaining authorization from \$141.2 million to \$641.2 million. During the first quarter of 2022, the Company completed the remaining stock repurchases under this program.

On March 23, 2022, the Company's board of directors approved a stock repurchase program for up to \$1.0 billion of the Company's common shares on the open market or in privately negotiated transactions. 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 May 1, 2022, the remaining authorized value of shares available to be repurchased under this program was \$954.8 million.

During the first quarter of 2022 and 2021, 0.7 million and 0.3 million shares, respectively, were repurchased under the program at a total cost of \$232.6 million and \$83.8 million, respectively.

Subsequent to May 1, 2022, and up to May 27, 2022, 0.3 million shares were repurchased at a total cost of \$87.9 million.

**Note 9. Supplementary Financial Information**

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

	May 1, 2022	January 30, 2022
<i>(In thousands)</i>		
<b>Inventories:</b>		
Inventories, at cost	\$ 1,326,659	\$ 1,004,526
Provision to reduce inventories to net realizable value	(51,619)	(38,045)
	\$ 1,275,040	\$ 966,481
<b>Prepaid expenses and other current assets:</b>		
Prepaid inventories	\$ —	\$ 42,691
Other prepaid expenses	117,707	98,254
Forward currency contract assets	21,722	19,077
Other current assets	45,083	32,550
	\$ 184,512	\$ 192,572
<b>Property and equipment, net:</b>		
Land	\$ 70,353	\$ 74,297
Buildings	27,764	30,880
Leasehold improvements	709,800	676,762
Furniture and fixtures	132,111	125,213
Computer hardware	136,399	130,393
Computer software	615,290	532,819
Equipment and vehicles	27,567	23,060
Work in progress	126,151	163,420
Property and equipment, gross	1,845,435	1,756,844
Accumulated depreciation	(870,651)	(829,134)
	\$ 974,784	\$ 927,710
<b>Other non-current assets:</b>		
Cloud computing arrangement implementation costs	\$ 94,765	\$ 89,334
Security deposits	23,968	24,083
Other	18,427	18,685
	\$ 137,160	\$ 132,102
<b>Accrued liabilities and other:</b>		
Accrued operating expenses	\$ 116,638	\$ 116,822
Accrued freight	73,192	71,390
Sales return allowances	47,838	41,690
Accrued duty	28,121	27,182
Forward currency contract liabilities	15,353	18,985
Sales tax collected	15,131	13,540
Accrued rent	12,446	11,254
Accrued capital expenditures	15,949	9,616
Accrued inventory liabilities	21,965	4,005
Other	16,305	16,316
	\$ 362,938	\$ 330,800

**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, MIRROR, sales to wholesale accounts, and license and supply arrangements are included within Other.

	First Quarter	
	2022	2021
	<i>(In thousands)</i>	
Net revenue:		
Company-operated stores	\$ 731,604	\$ 536,584
Direct to consumer	721,253	545,089
Other	160,606	144,792
	\$ 1,613,463	\$ 1,226,465
Segmented income from operations:		
Company-operated stores	\$ 160,706	\$ 99,148
Direct to consumer	285,107	236,933
Other	19,527	14,506
	465,340	350,587
General corporate expense	202,798	146,907
Amortization of intangible assets	2,195	2,195
Acquisition-related expenses	—	7,664
Income from operations	260,347	193,821
Other income (expense), net	(22)	227
Income before income tax expense	\$ 260,325	\$ 194,048
Capital expenditures:		
Company-operated stores	\$ 24,946	\$ 18,565
Direct to consumer	20,339	26,581
Corporate and other	66,067	19,079
	\$ 111,352	\$ 64,225
Depreciation and amortization:		
Company-operated stores	\$ 31,310	\$ 26,800
Direct to consumer	8,669	5,748
Corporate and other	24,491	17,937
	\$ 64,470	\$ 50,485

### Note 11. Net Revenue by Geography and Category

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

	First Quarter	
	2022	2021
	<i>(In thousands)</i>	
United States	\$ 1,098,329	\$ 849,614
Canada	244,944	167,729
Outside of North America	270,190	209,122
	\$ 1,613,463	\$ 1,226,465

In addition to the disaggregation of net revenue by reportable segment, the following table disaggregates the Company's net revenue by category.

	First Quarter	
	2022	2021
	<i>(In thousands)</i>	
Women's product	\$ 1,073,924	\$ 849,645
Men's product	374,998	274,307
Other categories	164,541	102,513
	\$ 1,613,463	\$ 1,226,465

### 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 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.

### Note 13. Subsequent Event

Subsequent to May 1, 2022, the Company completed the sale of an administrative office building. As of May 1, 2022, the building's carrying value of \$5.4 million was classified as a held for sale and was recognized within other current assets. The sale resulted in a pre-tax gain of \$10.2 million which will be recognized during the second quarter of 2022.

## **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 2021 Annual Report on Form 10-K filed with the SEC on March 29, 2022. Fiscal 2022 and fiscal 2021 are referred to as "2022," and "2021," respectively. The first quarter of 2022 and 2021 ended on May 1, 2022 and May 2, 2021, 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](#)
- [Comparable Store Sales and Total Comparable Sales](#)
- [Non-GAAP Financial Measures](#)
- [Seasonality](#)
- [Liquidity and Capital Resources](#)
- [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://corporate.lululemon.com/investors>), 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 technical athletic apparel, footwear, and accessories. We have a vision to create transformative products and experiences that build meaningful connections, unlocking greater possibility and wellbeing for all. 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, acting with 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 human potential by helping people feel their best."

Our performance apparel and footwear 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 activities. 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. We also offer in-home fitness equipment and associated content subscriptions, including live and on-demand classes, through our MIRROR brand.

### **COVID-19 Update**

COVID-19 continues to impact the global economy and cause disruption and volatility. While most of our retail locations were open throughout the first quarter of fiscal 2022 and 2021, certain locations were temporarily closed based on government and health authority guidance. Certain stores and our third party distribution center in the People's Republic of China ("PRC") experienced temporary closures during the first quarter of 2022, and there is uncertainty regarding the ongoing impact of COVID-19 on our operations in the PRC. We believe we will continue to experience differing levels of disruption and volatility, market by market. The pandemic has impacted our suppliers and our distribution and logistics providers, including in the PRC. There has been disruption in transportation and port congestion, an increase in freight costs, and we have increased our use of air freight. We expect this disruption and these increased costs to continue throughout 2022.

### **Financial Highlights**

For the first quarter of 2022, compared to the first quarter of 2021:

- Net revenue increased 32% to \$1.6 billion. On a constant dollar basis, net revenue increased 32%.
- Total comparable sales increased 28%, or 29% on a constant dollar basis.
  - Comparable store sales increased 24%, or 24% on a constant dollar basis.
  - Direct to consumer net revenue increased 32%, or 33% on a constant dollar basis.
- Gross profit increased 24% to \$870.4 million.
- Gross margin decreased 320 basis points to 53.9%.
- Income from operations increased 34% to \$260.3 million.
- Operating margin increased 30 basis points to 16.1%.
- Income tax expense increased 43% to \$70.3 million. Our effective tax rate for the first quarter of 2022 was 27.0% compared to 25.3% for the first quarter of 2021.
- Diluted earnings per share were \$1.48 compared to \$1.11 in the first quarter of 2021. The first quarter of 2021 includes \$7.3 million of after-tax costs related to the MIRROR acquisition, which reduced diluted earnings per share by \$0.05. There were no acquisition-related expenses in the first quarter of 2022.

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, total comparable sales, comparable store sales, and direct to consumer net revenue and the most directly comparable measures calculated in accordance with GAAP.

## Quarter-to-Date Results of Operations: First Quarter Results

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

	First Quarter			
	2022	2021	2022	2021
	<i>(In thousands)</i>		<i>(Percentage of net revenue)</i>	
Net revenue	\$ 1,613,463	\$ 1,226,465	100.0 %	100.0 %
Cost of goods sold	743,070	526,151	46.1	42.9
Gross profit	870,393	700,314	53.9	57.1
Selling, general and administrative expenses	607,851	496,634	37.7	40.5
Amortization of intangible assets	2,195	2,195	0.1	0.2
Acquisition-related expenses	—	7,664	—	0.6
Income from operations	260,347	193,821	16.1	15.8
Other income (expense), net	(22)	227	—	—
Income before income tax expense	260,325	194,048	16.1	15.8
Income tax expense	70,327	49,092	4.4	4.0
Net income	\$ 189,998	\$ 144,956	11.8 %	11.8 %

### Net Revenue

Net revenue increased \$387.0 million, or 32%, to \$1.6 billion for the first quarter of 2022 from \$1.2 billion for the first quarter of 2021. On a constant dollar basis, assuming the average foreign currency exchange rates for the first quarter of 2022 remained constant with the average foreign currency exchange rates for the first quarter of 2021, net revenue increased \$394.1 million, or 32%.

The increase in net revenue was primarily due to increased company-operated store net revenue, including from increased comparable store sales and new company-operated stores. Direct to consumer net revenue and other net revenue also increased.

Total comparable sales, which includes comparable store sales and direct to consumer net revenue, increased 28% for the first quarter of 2022 compared to the first quarter of 2021. Total comparable sales increased 29% on a constant dollar basis.

Net revenue for the first quarter of 2022 and 2021 is summarized below.

	First Quarter					
	2022	2021	2022	2021	Year over year change	
	<i>(In thousands)</i>		<i>(Percentages)</i>		<i>(In thousands)</i>	<i>(Percentages)</i>
Company-operated stores	\$ 731,604	\$ 536,584	45.3 %	43.8 %	\$ 195,020	36.3 %
Direct to consumer	721,253	545,089	44.7	44.4	176,164	32.3
Other	160,606	144,792	10.0	11.8	15,814	10.9
Net revenue	\$ 1,613,463	\$ 1,226,465	100.0 %	100.0 %	\$ 386,998	31.6 %

**Company-Operated Stores.** The increase in net revenue from our company-operated stores was driven by increased comparable store sales. Comparable store sales increased 24%, or 24% on a constant dollar basis. The increase in comparable store sales was primarily a result of increased store traffic, partially offset by a decrease in conversion rates and dollar value per transaction. Net revenue from company-operated stores that we opened or significantly expanded since the first quarter of 2021 contributed \$93.9 million to the increase in net revenue from our company-operated stores. We opened 56 net new company-operated stores since the first quarter of 2021, including 38 stores in Asia Pacific, 12 stores in North America, and six stores in Europe.

**Direct to Consumer.** Direct to consumer net revenue increased 32%, or 33% 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.

*Other.* The increase in net revenue was primarily due to increased outlet sales, license and supply arrangement revenue, and sales to wholesale accounts. The increase in net revenue was partially offset by a decrease in net revenue from MIRROR and our pop up locations, which had fewer locations open compared to the prior year.

**Gross Profit**

	First Quarter			
	2022	2021	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands) (Percentage)</i>	
Gross profit	\$ 870,393	\$ 700,314	\$ 170,079	24.3 %
Gross margin	53.9 %	57.1 %	(320) basis points	

The decrease in gross margin was primarily the result of:

- a decrease in product margin of 370 basis points, primarily due to higher air freight costs as a result of global supply chain disruption;
- an increase in costs related to our distribution centers and product departments as a percentage of net revenue of 20 basis points; and
- an unfavorable impact of foreign currency exchange rates of 10 basis points.

The decrease in gross margin was partially offset by a decrease in occupancy and depreciation costs as a percentage of net revenue of 80 basis points, driven primarily by the increase in net revenue.

**Selling, General and Administrative Expenses**

	First Quarter			
	2022	2021	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands) (Percentage)</i>	
Selling, general and administrative expenses	\$ 607,851	\$ 496,634	\$ 111,217	22.4 %
Selling, general and administrative expenses as a percentage of net revenue	37.7 %	40.5 %	(280) basis points	

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

- an increase in head office costs of \$68.4 million, comprised of:
  - an increase in costs of \$36.4 million primarily due to an increase in brand and community costs, professional fees, technology costs, and depreciation; and
  - an increase in employee costs of \$32.0 million primarily due to an increase in salaries and wages expense and incentive compensation, primarily as a result of headcount growth as well as increased salaries;
- an increase in costs related to our operating channels of \$43.1 million, comprised of:
  - an increase in employee costs of \$24.6 million primarily due to an increase in salaries and wages expense and incentive compensation in our company-operated stores and direct to consumer channels, primarily from the growth in our business as well as increased wage rates;
  - an increase in variable costs of \$17.3 million primarily due to an increase in distribution costs and credit card fees, as a result of increased net revenue; and
  - an increase in operating costs of \$5.5 million primarily due to increased depreciation and an increase in repairs and maintenance costs in our company-operated stores.

The increase in costs related to our operating channels was partially offset by a decrease in brand and community costs of \$4.3 million primarily due to a decrease in marketing expenses related to MIRROR, partially offset by an increase in digital marketing expenses related to our direct to consumer channel.

- a decrease in net foreign currency exchange and derivative revaluation losses of \$0.3 million.

#### **Amortization of intangible assets**

	First Quarter			
	2022	2021	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Amortization of intangible assets	\$ 2,195	\$ 2,195	\$ —	— %

The amortization of intangible assets was primarily the result of the amortization of intangible assets recognized upon the acquisition of MIRROR.

#### **Acquisition-related expenses**

	First Quarter			
	2022	2021	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Acquisition-related expenses	\$ —	\$ 7,664	\$ (7,664)	(100.0)%

In connection with our acquisition of MIRROR, we recognized acquisition-related compensation expenses of \$7.2 million and integration related costs of \$0.5 million in the first quarter of 2021. There were no acquisition-related expenses in the first quarter of 2022.

#### **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 Quarter					
	2022	2021	2022	2021	Year over year change	
	(In thousands)		(Percentage of net revenue of respective operating segment)		(In thousands)	(Percentage)
Segmented income from operations:						
Company-operated stores	\$ 160,706	\$ 99,148	22.0 %	18.5 %	\$ 61,558	62.1 %
Direct to consumer	285,107	236,933	39.5	43.5	48,174	20.3
Other	19,527	14,506	12.2	10.0	5,021	34.6
	\$ 465,340	\$ 350,587			\$ 114,753	32.7 %
General corporate expense	202,798	146,907			55,891	38.0
Amortization of intangible assets	2,195	2,195			—	—
Acquisition-related expenses	—	7,664			(7,664)	(100.0)
Income from operations	\$ 260,347	\$ 193,821			\$ 66,526	34.3 %
Operating margin	16.1 %	15.8 %			30 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 \$93.4 million, driven by increased net revenue, as a result of increased comparable store sales and sales from new and significantly expanded stores, as well as higher gross margin. The increase in gross margin was primarily due to leverage on fixed costs, partially offset by lower product margin driven by increased air freight costs relative to net revenue. 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 salaries and wages expense and higher incentive compensation as a result of the growth in our business. Store operating costs increased primarily due to increases in credit card fees, packaging costs, and distribution costs, as a result of higher net revenue, as well

as increased repairs and maintenance. Income from operations as a percentage of company-operated stores net revenue increased due to leverage on selling, general and administrative expenses and higher gross margin.

*Direct to Consumer.* The increase in income from operations from our direct to consumer segment was primarily the result of increased gross profit of \$79.5 million, driven by increased net revenue as a result of increased traffic and a higher dollar value per transaction, partially offset by lower gross margin. The decrease in gross margin was primarily due to lower product margin driven by increased air freight and distribution center costs relative to net revenue. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to higher variable operating costs including distribution costs and credit card fees, as a result of higher net revenue, as well as higher digital marketing expenses, employee costs, and depreciation. Income from operations as a percentage of direct to consumer net revenue decreased primarily due to decreased gross margin, partially offset by leverage on selling, general and administrative expenses.

*Other.* The increase in other income from operations was primarily due to decreased selling, general and administrative expenses, driven by decreased MIRROR marketing expenses, and decreased people costs at our other retail locations primarily due to fewer pop up locations open compared to the prior year. These decreases were partially offset by decreased gross profit of \$2.9 million, driven by increased air freight costs. Income from operations as a percentage of other net revenue increased primarily due to leverage on selling, general and administrative expenses, partially offset by lower gross margin.

*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 brand and community costs, professional fees, technology costs, and depreciation. The increase in general corporate expense was partially offset by a decrease in net foreign currency exchange and derivative revaluation losses of \$0.3 million.

**Other Income (Expense), Net**

	First Quarter			
	2022	2021	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Other income (expense), net	\$ (22)	\$ 227	\$ (249)	(109.7)%

The decrease in other income, net was primarily due to a decrease in interest income as a result of lower cash balances.

**Income Tax Expense**

	First Quarter			
	2022	2021	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Income tax expense	\$ 70,327	\$ 49,092	\$ 21,235	43.3 %
Effective tax rate	27.0 %	25.3 %	170 basis points	

The increase in the effective tax rate was primarily due to a net decrease in tax deductions related to stock-based compensation and accrued withholding taxes on unremitted foreign earnings.

**Net Income**

	First Quarter			
	2022	2021	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Net income	\$ 189,998	\$ 144,956	\$ 45,042	31.1 %

The increase in net income was primarily due to an increase in gross profit of \$170.1 million and a decrease in acquisition-related expenses of \$7.7 million, partially offset by an increase in selling, general and administrative expenses of \$111.2 million, an increase in income tax expense of \$21.2 million, and a decrease in other income (expense), net of \$0.2 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 believe investors would similarly find these metrics useful in assessing the performance of our business.

Comparable store sales reflect net revenue from company-operated stores that have been open, or open after being significantly expanded, for at least 12 full fiscal months. Net revenue from a store is included in comparable store sales beginning with the first fiscal month for which the store has a full fiscal month of sales in the prior year. Comparable store sales exclude sales from new stores that have not been open for at least 12 full fiscal months, from stores which have not been in their significantly expanded space for at least 12 full fiscal months, and from stores which have been temporarily relocated for renovations or temporarily closed. Comparable store sales also exclude sales from direct to consumer and our other operations, as well as sales from company-operated stores that have closed.

Total comparable sales combines comparable store sales and direct to consumer net revenue.

In fiscal years with 53 weeks, the 53rd week of net revenue is excluded from the calculation of comparable sales. In the year following a 53 week year, the prior year period is shifted by one week to compare similar calendar weeks.

Opening new stores and expanding existing stores is an important part of our growth strategy. Accordingly, total comparable sales is just one way of assessing the success of our growth strategy insofar as comparable sales do not reflect the performance of stores opened, or significantly expanded, within the last 12 full fiscal months. The comparable sales measures we report may not be equivalent to similarly titled measures reported by other companies.

## Non-GAAP Financial Measures

Constant dollar changes in net revenue, total comparable sales, comparable store sales, 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.

	First Quarter 2022	
	Net Revenue	
	<i>(In thousands)</i>	<i>(Percentages)</i>
Change	\$ 386,998	32 %
Adjustments due to foreign currency exchange rate changes	7,098	—
Change in constant dollars	\$ 394,096	32 %

**Constant dollar changes in total comparable sales, comparable store sales, and direct to consumer net revenue**

The below changes in total comparable sales, comparable store sales, and direct to consumer net revenue show the change compared to the corresponding period in the prior year.

	First Quarter 2022		
	Total Comparable Sales <sup>1,2</sup>	Comparable Store Sales <sup>2</sup>	Direct to Consumer Net Revenue
Change	28 %	24 %	32 %
Adjustments due to foreign currency exchange rate changes	1	—	1
Change in constant dollars	29 %	24 %	33 %

<sup>(1)</sup> Total comparable sales includes comparable store sales and direct to consumer net revenue.

<sup>(2)</sup> Comparable store sales reflects net revenue from company-operated stores that have been open for at least 12 full fiscal months, or open for at least 12 full fiscal months after being significantly expanded.

**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 44% and 56% of our full year operating profit during the fourth quarters of 2021 and 2020, 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 2021.

**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 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 and term deposits.

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

	First Quarter		
	2022	2021	Year over year change
<i>(In thousands)</i>			
Total cash provided by (used in):			
Operating activities	\$ (243,256)	\$ 214,109	\$ (457,365)
Investing activities	(101,328)	(85,464)	(15,864)
Financing activities	(259,560)	(122,235)	(137,325)
Effect of foreign currency exchange rate changes on cash	(6,711)	22,812	(29,523)
Increase (decrease) in cash and cash equivalents	\$ (610,855)	\$ 29,222	\$ (640,077)

**Operating Activities**

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

- a decrease in cash flows from the changes in operating assets and liabilities of \$487.9 million. This decrease was driven by changes in inventories, income taxes, and accrued compensation; and

- changes in adjusting items of \$14.5 million, primarily driven by lower cash inflows related to derivatives not designated in a hedging relationship, partially offset by increased depreciation and stock-based compensation expenses.

The increase in cash used in operating activities was partially offset by increased net income of \$45.0 million.

### **Investing Activities**

The increase in cash used in investing activities was primarily due to increased capital expenditures, partially offset by the settlement of net investment hedges. The increase in capital expenditures was primarily due to increased corporate expenditures driven by investment in technology and business systems and increased expenditures on corporate office renovations. There was also increased company-operated store expenditures driven by opening new stores as well remodeling stores to support our footwear launch. This was partially offset by decreased capital expenditures for our direct to consumer segment.

### **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 quarter of 2022 included \$232.6 million to repurchase 0.7 million shares of our common stock compared to \$83.8 million to repurchase 0.3 million shares for the first quarter of 2021. 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.

### **Liquidity Outlook**

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 expenditures out of our cash and cash equivalents and cash generated from operations.

The following table includes certain measures of our liquidity:

	May 1, 2022
	<i>(In thousands)</i>
Cash and cash equivalents	\$ 649,016
Working capital excluding cash and cash equivalents <sup>(1)</sup>	447,333
Capacity under committed revolving credit facility	396,907

(1) Working capital is calculated as current assets of \$2.3 billion less current liabilities of \$1.2 billion.

We enter into standby letters of credit to secure certain of our obligations, including leases, taxes, and duties. As of May 1, 2022, letters of credit and letters of guarantee totaling \$4.3 million had been issued, including \$3.1 million under our committed revolving credit facility.

Our committed North America credit facility provides for \$400.0 million in commitments under an unsecured five-year revolving credit facility. The credit facility has a maturity date of December 14, 2026, subject to extension under certain circumstances. As of May 1, 2022, aside from letters of credit of \$3.1 million, we had no other borrowings outstanding under this credit facility. Further information regarding our credit facilities and associated covenants is outlined in Note 4. Revolving Credit Facilities included in Item 1 of Part I of this report.

### **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 2021 Annual Report on Form 10-K filed with the SEC on March 29, 2022.

## Operating Locations

Our company-operated stores by country as of May 1, 2022 and January 30, 2022 are summarized in the table below.

Number of company-operated stores by country	May 1, 2022	January 30, 2022
United States	325	324
People's Republic of China <sup>(1)</sup>	87	86
Canada	64	63
Australia	31	31
United Kingdom	18	17
South Korea	13	12
Germany	8	9
New Zealand	7	7
Japan	6	6
Singapore	6	6
Ireland	4	3
France	3	3
Malaysia	2	2
Sweden	2	2
Netherlands	1	1
Norway	1	1
Switzerland	1	1
<b>Total company-operated stores</b>	<b>579</b>	<b>574</b>

<sup>(1)</sup> Included within PRC as of May 1, 2022, were nine stores in Hong Kong Special Administrative Region, five stores in Taiwan, and two stores in Macao Special Administration Region. As of January 30, 2022, there were nine stores in Hong Kong Special Administrative Region, five 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 May 1, 2022, there were 16 licensed locations, including eight in Mexico, six in the United Arab Emirates, one in Kuwait, 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 other comprehensive income (loss), net of tax 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 May 1, 2022, 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
  - net investment hedge losses from derivative valuation losses on forward currency contracts, entered into as net investment hedges of a Canadian subsidiary.

During the first quarter of 2022, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$11.4 million increase in accumulated other comprehensive loss within stockholders' equity. During the first quarter of 2021, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$67.1 million reduction 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 quarter of 2022 would have resulted in lower income from operations of approximately \$26.6 million. This assumes a consistent 10% appreciation in the U.S. dollar against the Canadian dollar over the first quarter of 2022. 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 May 1, 2022, aside from letters of credit of \$3.1 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, and short-term deposits 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 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 as well as overhead costs may adversely affect our operating results. During 2021 and the first quarter of 2022, our operating margin was impacted by higher air freight costs compared to fiscal 2020 as a result of global supply chain disruption, as well as increased wage costs. Sustained increases in transportation costs, wages, and raw material costs, or other inflationary pressures 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, or we cannot identify cost efficiencies.

### ***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) as of May 1, 2022. Based on that evaluation, our principal executive officer and principal financial and accounting officer concluded that, as of May 1, 2022, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting during the quarter ended May 1, 2022 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 2021 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 2021 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.*

#### 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 negatively impacted our business and operations in 2020. While conditions improved in 2021, the extent and duration of ongoing impacts remain uncertain. Certain stores and our third party distribution center in the PRC experienced temporary closures during the first quarter of 2022, and there is uncertainty regarding the ongoing impact of COVID-19 on our operations in the PRC.

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, PRC, 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 (for example, because of inflationary pressures, or because of sanctions, restrictions, and other responses related to geopolitical events). 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, or take longer than anticipated to achieve. 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, or if integration takes longer than planned, 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 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 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 \$6.3 billion in 2021. 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, political instability, inflationary pressures, or other economic conditions, 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, which could result in fluctuations in our operating results.***

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. This seasonality, along with other factors that are beyond our control, including weather conditions and the effects of climate change, could 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, war, terrorism, product recalls, labor supply or

stoppages, the financial or operational instability of key suppliers and carriers, changes in diplomatic or trade relationships (including any sanctions, restrictions, and other responses such as those related to current geopolitical events), 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 economic uncertainty due to the impacts of COVID-19, political instability, inflationary pressures, and other factors, 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 41 vendors that manufacture our products, five of which produced 57% of our products in 2021. During 2021, the largest single manufacturer produced approximately 15% of our products. During 2021, approximately 40% of our products were manufactured in Vietnam, 17% in Cambodia, 11% in Sri Lanka, 7% in the PRC, including 2% in Taiwan, and the remainder in other regions.

We work with a group of approximately 65 suppliers to provide the fabrics for our products. In 2021, 56% of our fabrics were produced by our top five fabric suppliers, and the largest single manufacturer produced approximately 27% of fabric used. During 2021, approximately 48% of our fabrics originated from Taiwan, 19% from China Mainland, 11% 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, including the PRC.

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 economic or political conditions, and 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 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 operations. 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 specific 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. Any and all of these factors may be exacerbated by global climate change. In addition, ongoing impacts of the pandemic, political instability, trade relations, sanctions, inflationary pressure, or other geopolitical or economic conditions 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, pandemics (such as the COVID-19 pandemic), the impacts of climate change, 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, labor disputes, pandemics, the impacts of climate change, 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.

In addition, the increased use of employee-owned devices for communications as well as work-from-home arrangements, such as those implemented in response to the COVID-19 pandemic, present additional operational risks to our technology systems, including increased risks of cyber-attacks. Further, like other companies in the retail industry, we have in the past experienced, and we expect to continue to experience, cyber-attacks, including phishing, and other attempts to breach, or gain unauthorized access to, our systems. To date, these attacks have not had a material impact on our operations, but they may have an impact in the future.

***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, the California Consumer Privacy Act ("CCPA") modified by the California Privacy Rights Act ("CPRA"), and the Personal Information Protection Law ("PIPL") in the PRC. 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 or perceived failure by us or our third-party service providers to comply with privacy or data protection laws, regulations, policies or regulatory guidance might have a materially adverse impact on our reputation, business operations and our financial condition or results of operations.

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

We are increasingly dependent on 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 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 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 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 technology systems and websites have experienced system failures and electrical outages in the past which have disrupted our operations. Any significant disruption in our 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, including those associated with climate change. 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 other sustainability disclosures 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, periods of inflation, 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, inflationary pressure, tax rates and general uncertainty regarding the overall future economic environment. Global economic conditions are uncertain and volatile, due in part to the impacts of COVID-19 and related restrictions and mitigation measures, the potential impacts of increasing inflation, the potential impacts of geopolitical uncertainties, and any potential sanctions, restrictions or responses to those conditions. 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, such as the turmoil related to current geopolitical events and the related sanctions, restrictions, or other responses, 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.

Repatriations from our Canadian subsidiaries are not subject to Canadian withholding taxes if such distributions are made as a return of capital. Historically, we have not accrued for any Canadian withholding taxes that would be payable on repatriations from our Canadian subsidiaries because the net investment in our Canadian subsidiaries is indefinitely reinvested, or could be repatriated free of withholding tax. The extent to which 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. As of May 1, 2022, we had 5.2 million exchangeable shares outstanding. If there are insufficient transactions by our exchangeable shareholders between now and the end of 2022, and our Canadian subsidiary continues to generate profits at historic rates, then we will be unable to repatriate all of our 2022 Canadian earnings free of withholding tax. We have therefore accrued for Canadian withholding taxes on the portion of our 2022 earnings which we expect to be unable to repatriate free of withholding tax. This has increased our effective tax rate, and absent further transactions by our exchangeable shareholders, we expect our tax rate to increase further in fiscal 2023.

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 stipulated 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, the State Administration for Market Regulation of the PRC, General Administration of Customs of the PRC, 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 other comprehensive income (loss), net of tax 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 patent, copyright, trademark, trade dress, trade secret, 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, any of our intellectual property rights may be challenged, which could result in them being narrowed in scope or declared invalid or unenforceable, or our 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, patents, 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, patents, 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 patents, and will continue to evaluate additional trademarks and patents as appropriate. However, some or all of these pending trademark or patent 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 applications or 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.

***We have been, and in the future may be, sued by third parties for alleged infringement of their proprietary rights.***

There is considerable patent and other intellectual property development activity in our market, and litigation, based on allegations of infringement or other violations of intellectual property, is frequent in the fitness and technology industries. Furthermore, it is common for individuals and groups to purchase patents and other intellectual property assets for the purpose of making claims of infringement to extract settlements from companies like ours. Our use of third-party content, including music content, software, and other intellectual property rights may be subject to claims of infringement or misappropriation. We cannot guarantee that our internally developed or acquired technologies and content do not or will not infringe the intellectual property rights of others. From time to time, our competitors or other third parties may claim that we are infringing upon or misappropriating their intellectual property rights, and we may be found to be infringing upon such rights. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our platform or services or using certain technologies, force us to implement expensive work-arounds, or impose other unfavorable terms. We expect that the occurrence of infringement claims is likely to grow as the market for fitness products and services grows and as we introduce new and updated products and offerings. Accordingly, our exposure to damages resulting from infringement claims could increase and this could further exhaust our financial and management resources. Any of the foregoing could prevent us from competing effectively and could have an adverse effect on our business, financial condition, and operating results.

## 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 first quarter of 2022 related to our stock repurchase program:

Period <sup>(1)</sup>	Total Number of Shares Purchased <sup>(2)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
January 31, 2022 - February 27, 2022	364,581	\$ 323.27	364,581	\$ 69,585,052
February 28, 2022 - April 3, 2022	223,501	311.34	223,501	1,000,000,000
April 4, 2022 - May 1, 2022	120,288	375.67	120,288	954,811,791
Total	708,370		708,370	

<sup>(1)</sup> Monthly information is presented by reference to our fiscal periods during our first quarter of 2022.

<sup>(2)</sup> On January 31, 2019, our board of directors approved a stock repurchase program of up to \$500.0 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 \$500.0 million, and on October 1, 2021, it approved an increase in the remaining authorization from \$141.2 million to \$641.2 million. During the first quarter of 2022, we completed the remaining stock repurchases under this program. On March 23, 2022, our board of directors approved a stock repurchase program of up to \$1.0 billion of our common shares on the open market or in privately negotiated transactions. 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 first quarter of 2022 related to our Employee Share Purchase Plan:

Period <sup>(1)</sup>	Total Number of Shares Purchased <sup>(2)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
January 31, 2022 - February 27, 2022	6,040	\$ 320.86	6,040	4,585,612
February 28, 2022 - April 3, 2022	9,584	332.37	9,584	4,576,028
April 4, 2022 - May 1, 2022	6,001	377.05	6,001	4,570,027
Total	21,625		21,625	

<sup>(1)</sup> Monthly information is presented by reference to our fiscal periods during our first quarter of 2022.

<sup>(2)</sup> 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.
31.1	<a href="#">Certification of principal executive officer Pursuant to Exchange Act Rule 13a-14(a)</a>	X			
31.2	<a href="#">Certification of principal financial and accounting officer Pursuant to Exchange Act Rule 13a-14(a)</a>	X			
32.1*	<a href="#">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</a>				
101	The following unaudited interim consolidated financial statements from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2022, 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: June 2, 2022

**Exhibit Index**

Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference		
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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 May 1, 2022, 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: June 2, 2022

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: June 2, 2022

**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 first quarter of fiscal 2022, 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: June 2, 2022

By: /s/ MEGHAN FRANK

Meghan Frank

Chief Financial Officer

(principal financial and accounting officer)

Date: June 2, 2022

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.