

## **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, 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 2022 Annual Report on Form 10-K filed with the SEC on March 28, 2023. Fiscal 2023 and fiscal 2022 are referred to as "2023," and "2022," respectively. The first three quarters of 2023 and 2022 ended on October 29, 2023 and October 30, 2022, respectively. Components of management's discussion and analysis of financial condition and results of operations include:

- [Overview](#)
- [Financial Highlights and Market Conditions and Trends](#)
- [Quarter-to-Date Results of Operations](#)
- [Year-to-Date Results of Operations](#)
- [Comparable Store Sales and Total Comparable Sales](#)
- [Non-GAAP Financial Measures](#)
- [Seasonality](#)
- [Liquidity and Capital Resources](#)
- [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."

We offer a comprehensive line of performance apparel, footwear, and accessories marketed under the lululemon brand. 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-inspired accessories. We expect to continue to broaden our merchandise offerings through expansion across these product areas.

## Financial Highlights

The summary below compares the third quarter of 2023 to the third quarter of 2022, and provides both GAAP and non-GAAP financial measures. The adjusted financial measures for 2023 exclude \$72.1 million of post-tax asset impairment and other charges recognized in relation to lululemon Studio.

- Net revenue increased 19% to \$2.2 billion.
- Total comparable sales increased 13%, or 14% on a constant dollar basis.
  - Comparable store sales increased 9%.
  - Direct to consumer net revenue increased 18%, or 19% on a constant dollar basis.
- Gross profit increased 21% to \$1.3 billion. Adjusted gross profit increased 23% to \$1.3 billion.
- Gross margin increased 110 basis points to 57.0%. Adjusted gross margin increased 220 basis points to 58.1%.
- Income from operations decreased 4% to \$338.1 million. Adjusted income from operations increased 24% to \$436.3 million.
- Operating margin decreased 370 basis points to 15.3%. Adjusted operating margin increased 80 basis points to 19.8%.
- Income tax expense increased 2% to \$99.2 million. Our effective tax rate for the third quarter of 2023 was 28.5% compared to 27.6% for the third quarter of 2022. The adjusted effective tax rate was 28.1% for the third quarter of 2023.
- We have contracted with Peloton Interactive, Inc. to be the exclusive digital fitness content provider for the lululemon Studio Mirror and will no longer produce our own digital fitness content. While we will continue to provide services and support to existing lululemon Studio subscribers, we have ceased selling the Mirror hardware. We recognized post-tax inventory provisions, asset impairments, and restructuring costs related to lululemon Studio totaling \$72.1 million during the third quarter of 2023.
- Diluted earnings per share were \$1.96 compared to \$2.00 in the third quarter of 2022. Adjusted diluted earnings per share were \$2.53 in the third quarter of 2023.

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 the above adjusted non-GAAP financial measures and the most directly comparable measures calculated in accordance with GAAP.

## Market Conditions and Trends

Macroeconomic conditions, supply chain disruption, and the COVID-19 pandemic have impacted our business and operating costs. Certain trends are expected to continue throughout 2023, with the impact varying by market.

### **Macroeconomic Conditions**

Macroeconomic conditions, including foreign currency fluctuations, have impacted our financial results. Foreign currency fluctuations reduced the growth of our net revenue by \$82.2 million when comparing the first three quarters of 2023 to the first three quarters of 2022, primarily due to the overall appreciation of the US dollar. We expect that future exchange rate volatility will impact our results. We have also experienced increased wage rates when comparing the first three quarters of 2023 to the first three quarters of 2022.

Guest traffic in our company-operated stores and online increased during the first three quarters of 2023, compared to the first three quarters of 2022. Consumer purchasing behaviors may be impacted by current economic conditions including

inflation, higher interest rates, and other macroeconomic factors which may have an adverse effect on our future operating margins.

### Supply chain disruption

In 2021 and 2022 we experienced supply chain disruption, including delays in inbound delivery of our products as well as in manufacturing. This supply chain disruption caused us to use higher cost modes of transport, including increasing our use of air freight. We saw an improvement in the supply chain disruption during the second half of 2022 and during the first three quarters of 2023, including reductions in freight costs and reductions in our levels of air freight usage.

During the first three quarters of 2023 compared to the first three quarters of 2022, our product margin increased by 320 basis points excluding the impact of the lululemon Studio inventory provision, primarily due to lower freight costs from rate reductions and reduced air freight usage. We expect that the reduction in freight costs for the fourth quarter of 2023 will be less significant than in the first three quarters of 2023.

### COVID-19 Pandemic

Most of our retail locations were open throughout the first three quarters of 2023 and 2022, with certain locations temporarily closed due to COVID-19 resurgences during the first quarter of 2022, including certain company-operated stores and our third party distribution center in the People's Republic of China ("PRC"). Net revenue from the PRC increased 64% in the first three quarters of 2023 compared to the first three quarters of 2022, with improvements in COVID-19 trading conditions contributing to this increase.

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

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

	Third Quarter			
	2023	2022	2023	2022
	<i>(In thousands)</i>		<i>(Percentage of net revenue)</i>	
Net revenue	\$ 2,204,218	\$ 1,856,889	100.0 %	100.0 %
Cost of goods sold	947,554	818,037	43.0	44.1
Gross profit	1,256,664	1,038,852	57.0	55.9
Selling, general and administrative expenses	842,795	684,236	38.2	36.8
Impairment of assets and restructuring costs	74,501	—	3.4	—
Amortization of intangible assets	1,253	2,189	0.1	0.1
Income from operations	338,115	352,427	15.3	19.0
Other income (expense), net	9,842	331	0.4	—
Income before income tax expense	347,957	352,758	15.8	19.0
Income tax expense	99,243	97,288	4.5	5.2
Net income	\$ 248,714	\$ 255,470	11.3 %	13.8 %

### Net Revenue

Net revenue increased \$347.3 million, or 19%, to \$2.2 billion for the third quarter of 2023 from \$1.9 billion for the third quarter of 2022. On a constant dollar basis, assuming the average foreign currency exchange rates for the third quarter of 2023 remained constant with the average foreign currency exchange rates for the third quarter of 2022, net revenue increased \$358.4 million, or 19%.

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

Total comparable sales, which includes comparable store sales and direct to consumer net revenue, increased 13% for the third quarter of 2023 compared to the third quarter of 2022. Total comparable sales increased 14% on a constant dollar basis.

Net revenue for the third quarter of 2023 and 2022 is summarized below.

	Third Quarter					
	2023		2022		Year over year change	
	<i>(In thousands)</i>		<i>(Percentage of net revenue)</i>		<i>(In thousands) (Percentage)</i>	
Company-operated stores	\$ 1,073,973	\$ 903,060	48.7 %	48.6 %	\$ 170,913	18.9 %
Direct to consumer	908,127	767,351	41.2	41.3	140,776	18.3
Other	222,118	186,478	10.1	10.0	35,640	19.1
Net revenue	\$ 2,204,218	\$ 1,856,889	100.0 %	100.0 %	\$ 347,329	18.7 %

**Company-Operated Stores.** The increase in net revenue from our company-operated stores was driven by net revenue from company-operated stores that we opened or significantly expanded since the third quarter of 2022 which contributed \$108.2 million to the increase. We have opened 63 net new company-operated stores since the third quarter of 2022, including 32 stores in Asia Pacific, 28 stores in North America, and three stores in Europe. The increase in net revenue from our company-operated stores was also driven by increased comparable store sales. Comparable store sales increased 9%, or 9% 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 a lower dollar value per transaction.

**Direct to Consumer.** Direct to consumer net revenue increased 18%, or 19% 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 other net revenue was primarily due to increased outlet sales, sales to wholesale accounts, and license and supply arrangement revenue. The increase in net revenue was partially offset by a decrease in net revenue from our temporary locations, which had fewer locations open compared to the prior year, and a decrease in lululemon Studio net revenue.

### Gross Profit

	Third Quarter					
	2023		2022		Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>		<i>(Percentage)</i>	
Gross profit	\$ 1,256,664	\$ 1,038,852	\$ 217,812			21.0 %
Gross margin			57.0 %	55.9 %		110 basis points

As a result of our decision to cease selling the lululemon Studio Mirror, we recognized an inventory obsolescence provision of \$23.7 million during the third quarter of 2023. This reduced gross margin by 110 basis points. Please refer to Note 3. Impairment of Assets and Restructuring Costs included in Item 1 of Part I of this report.

Gross margin increased 110 basis points, or increased 220 basis points on an adjusted basis. The 220 basis point increase in adjusted gross margin was primarily the result of:

- a net increase in product margin of 250 basis points, primarily due to lower freight costs from rate reductions and reduced air freight usage as well as lower duty costs, modestly offset by higher inventory provisions, shrink, and damages in the current year.

The increase in adjusted gross margin was partially offset by an increase in occupancy costs as a percentage of net revenue of 20 basis points and an unfavorable impact of foreign currency exchange rates of 10 basis points.

### Selling, General and Administrative Expenses

	Third Quarter					
	2023		2022		Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>		<i>(Percentage)</i>	
Selling, general and administrative expenses	\$ 842,795	\$ 684,236	\$ 158,559			23.2 %
Selling, general and administrative expenses as a percentage of net revenue			38.2 %	36.8 %		140 basis points

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

- an increase in head office costs of \$89.4 million, comprised of:
  - an increase in brand and community costs of \$36.3 million primarily due to increased marketing expenses;
  - an increase in employee costs of \$26.9 million primarily due to increased salaries and wages expense as well as increased benefits costs, stock-based compensation, and incentive compensation, primarily as a result of headcount growth and increased wage rates;
  - an increase in other head office costs of \$11.2 million, primarily due to increased professional fees;
  - an increase in technology costs, including cloud computing amortization, of \$8.2 million; and
  - an increase in depreciation of \$6.8 million.
- an increase in costs related to our operating channels of \$75.6 million, comprised of:
  - an increase in employee costs of \$34.2 million primarily due to increased salaries and wages expense, benefit costs, and incentive compensation in our company-operated stores channel, primarily from the growth in our business and increased wage rates;
  - an increase in other operating costs of \$18.8 million primarily due to increased depreciation, repairs and maintenance costs, and technology costs;
  - an increase in variable costs of \$15.2 million primarily due to increased credit card fees, distribution costs, and packaging costs primarily as a result of increased net revenue; and
  - an increase in brand and community costs of \$7.4 million primarily due to increased digital marketing expenses related to our direct to consumer channel.

The increase in selling, general and administrative expenses was partially offset by a decrease in net foreign currency exchange and derivative revaluation losses of \$6.4 million.

**Impairment of Assets and Restructuring Costs**

	Third Quarter		
	2023	2022	Year over year change
	<i>(In thousands)</i>		<i>(In thousands)</i> <i>(Percentage)</i>
Impairment of assets and restructuring costs	\$ 74,501	\$ —	\$ 74,501    n/a

During the third quarter of 2023, we recognized certain asset impairments and restructuring costs related to lululemon Studio. Please refer to Note 3. Impairment of Assets and Restructuring Costs included in Item 1 of Part I of this report for further information.

**Amortization of Intangible Assets**

	Third Quarter		
	2023	2022	Year over year change
	<i>(In thousands)</i>		<i>(In thousands)</i> <i>(Percentage)</i>
Amortization of intangible assets	\$ 1,253	\$ 2,189	\$ (936)    (42.8)%

The amortization of intangible assets was primarily the result of the amortization of intangible assets recognized upon the acquisition of MIRROR, which we rebranded as lululemon Studio.

**Income from Operations**

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

	Third Quarter					
	2023	2022	2023	2022	Year over year change	
	(In thousands)		(Percentage of net revenue of respective operating segment)		(In thousands)	(Percentage)
Segmented income from operations:						
Company-operated stores	\$ 310,510	\$ 242,733	28.9 %	26.9 %	\$ 67,777	27.9 %
Direct to consumer	384,393	321,742	42.3	41.9	62,651	19.5
Other	53,527	24,911	24.1	13.4	28,616	114.9
	\$ 748,430	\$ 589,386			\$ 159,044	27.0 %
General corporate expense	310,852	234,770			76,082	32.4
lululemon Studio obsolescence provision	23,709	—			23,709	n/a
Impairment of assets and restructuring costs	74,501	—			74,501	n/a
Amortization of intangible assets	1,253	2,189			(936)	(42.8)
Income from operations	\$ 338,115	\$ 352,427			\$ (14,312)	(4.1)%
Operating margin	15.3 %	19.0 %			(370) 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 \$114.5 million, driven by increased net revenue and higher gross margin. The increase in gross margin was primarily due to higher product margin driven by lower freight costs and lower markdowns, partially offset by higher inventory provisions, shrink, and damages. The increase in gross margin was partially offset by an unfavorable impact of foreign currency exchange rates, deleverage in occupancy costs, and deleverage in costs from our product teams. 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, benefit costs, and incentive compensation as a result of the growth in our business and increased wage rates. Store operating costs increased primarily due to increases in credit card fees and packaging costs, as a result of higher net revenue, as well as increased repairs and maintenance. Income from operations as a percentage of company-operated store net revenue increased due to higher gross margin, partially offset by deleverage on selling, general and administrative expenses.

**Direct to Consumer.** The increase in income from operations from our direct to consumer segment was primarily the result of increased gross profit of \$105.5 million, driven by increased net revenue and higher gross margin. The increase in gross margin was primarily due to higher product margin driven by lower freight costs, partially offset by higher markdowns and inventory provisions. The increase in gross margin was partially offset by an unfavorable impact of foreign currency exchange rates and deleverage in costs from our product teams and distribution centers. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to higher digital marketing expenses, higher variable operating costs including distribution costs, credit card fees, and packaging costs as a result of higher net revenue, as well as higher depreciation costs and technology costs. Income from operations as a percentage of direct to consumer net revenue increased primarily due to higher gross margin, partially offset by deleverage on selling, general and administrative expenses.

**Other.** The increase in income from operations from our other channels was primarily the result of increased gross profit of \$21.6 million, driven by increased net revenue and higher gross margin. The increase in income from operations from our other channels was partially offset by an increase in selling, general and administrative expenses primarily due to increased salaries and wages expense and increased repairs and maintenance, partially offset by reduced lululemon Studio marketing expenses. Income from operations as a percentage of other net revenue increased primarily due to leverage on selling, general and administrative expenses and higher gross margin.

**General Corporate Expense.** The increase in general corporate expense was primarily due to increased brand and community costs, as well as increased employee costs, primarily from headcount growth and increased wage rates, 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 \$6.4 million.

**Other Income (Expense), Net**

	Third Quarter		
	2023	2022	Year over year change
	<i>(In thousands)</i>		<i>(Percentage)</i>
Other income (expense), net	\$ 9,842	\$ 331	\$ 9,511 n/a

The increase in other income, net was primarily due to an increase in interest income as a result of higher interest rates and higher cash balances.

**Income Tax Expense**

	Third Quarter		
	2023	2022	Year over year change
	<i>(In thousands)</i>		<i>(Percentage)</i>
Income tax expense	\$ 99,243	\$ 97,288	\$ 1,955 2.0 %
Effective tax rate	28.5 %	27.6 %	90 basis points

The increase in the effective tax rate was primarily due to the accrual of withholding taxes on unremitted foreign earnings and a lower tax rate on certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio which increased the effective tax rate in the third quarter of 2023 by 40 basis points. This was partially offset by a reduction in non-deductible expenses in international jurisdictions and an increase in tax benefits related to stock-based compensation.

Excluding certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio in 2023, and their tax effects, our adjusted effective tax rate was 28.1% for the third quarter of 2023.

**Net Income**

	Third Quarter		
	2023	2022	Year over year change
	<i>(In thousands)</i>		<i>(Percentage)</i>
Net income	\$ 248,714	\$ 255,470	\$ (6,756) (2.6)%

The decrease in net income was primarily due to an increase in selling, general and administrative expenses of \$158.6 million, asset impairment and restructuring costs recognized in relation to lululemon Studio in the third quarter of 2023 of \$74.5 million, and an increase in income tax expense of \$2.0 million, partially offset by an increase in gross profit of \$217.8 million and an increase in other income (expense), net of \$9.5 million. Excluding certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio in 2023, and their tax effects, adjusted net income increased \$65.4 million or 26%.

## Year-to-Date Results of Operations: First Three Quarters Results

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

	First Three Quarters			
	2023	2022	2023	2022
	<i>(In thousands)</i>		<i>(Percentage of net revenue)</i>	
Net revenue	\$ 6,414,175	\$ 5,338,680	100.0 %	100.0 %
Cost of goods sold	2,708,195	2,373,959	42.2	44.5
Gross profit	3,705,980	2,964,721	57.8	55.5
Selling, general and administrative expenses	2,407,683	1,954,340	37.5	36.6
Impairment of assets and restructuring costs	74,501	—	1.2	—
Amortization of intangible assets	5,010	6,579	0.1	0.1
Gain on disposal of assets	—	(10,180)	—	(0.2)
Income from operations	1,218,786	1,013,982	19.0	19.0
Other income (expense), net	25,229	454	0.4	—
Income before income tax expense	1,244,015	1,014,436	19.4	19.0
Income tax expense	363,293	279,447	5.7	5.2
Net income	\$ 880,722	\$ 734,989	13.7 %	13.8 %

### Net Revenue

Net revenue increased \$1.1 billion, or 20%, to \$6.4 billion for the first three quarters of 2023 from \$5.3 billion for the first three quarters of 2022. On a constant dollar basis, assuming the average foreign currency exchange rates for the first three quarters of 2023 remained constant with the average foreign currency exchange rates for the first three quarters of 2022, net revenue increased \$1.2 billion, or 22%.

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

Total comparable sales, which includes comparable store sales and direct to consumer net revenue, increased 13% for the first three quarters of 2023 compared to the first three quarters of 2022. Total comparable sales increased 14% on a constant dollar basis.

Net revenue for the first three quarters of 2023 and 2022 is summarized below.

	First Three Quarters				Year over year change	
	2023	2022	2023	2022	(In thousands)	(Percentage)
	<i>(In thousands)</i>		<i>(Percentage of net revenue)</i>			
Company-operated stores	\$ 3,128,999	\$ 2,537,741	48.8 %	47.5 %	\$ 591,258	23.3 %
Direct to consumer	2,636,742	2,264,029	41.1	42.4	372,713	16.5
Other	648,434	536,910	10.1	10.1	111,524	20.8
Net revenue	\$ 6,414,175	\$ 5,338,680	100.0 %	100.0 %	\$ 1,075,495	20.1 %

**Company-Operated Stores.** The increase in net revenue from our company-operated stores was driven by net revenue from company-operated stores that we opened or significantly expanded since the third quarter of 2022 which contributed \$387.1 million to the increase. We have opened 63 net new company-operated stores since the third quarter of 2022, including 32 stores in Asia Pacific, 28 stores in North America, and three stores in Europe. The increase in net revenue from our company-operated stores was also driven by increased comparable store sales. Comparable store sales increased 10%, or 11% 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 a lower dollar value per transaction.

*Direct to Consumer.* Direct to consumer net revenue increased 16%, or 18% on a constant dollar basis. The increase in net revenue from our direct to consumer segment was primarily a result of increased traffic, partially offset by a decrease in conversion rates and a lower dollar value per transaction.

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

**Gross Profit**

	First Three Quarters			
	2023	2022	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Gross profit	\$ 3,705,980	\$ 2,964,721	\$ 741,259	25.0 %
Gross margin	57.8 %	55.5 %	230 basis points	

As a result of our decision to cease selling the lululemon Studio Mirror, we recognized an inventory obsolescence provision of \$23.7 million during the third quarter of 2023. This reduced gross margin by 30 basis points. Please refer to Note 3. Impairment of Assets and Restructuring Costs included in Item 1 of Part I of this report.

Gross margin increased 230 basis points, or increased 260 basis points on an adjusted basis. The 260 basis point increase in adjusted gross margin was primarily the result of:

- a net increase in product margin of 320 basis points, primarily due to lower freight costs from rate reductions and reduced air freight usage as well as lower duty costs, modestly offset by higher inventory provisions and damages in the current year.

The increase in adjusted gross margin was partially offset by:

- an unfavorable impact of foreign currency exchange rates of 30 basis points;
- an increase in costs related to our distribution centers and product departments as a percentage of net revenue of 20 basis points; and
- an increase in occupancy costs as a percentage of net revenue of 10 basis points.

**Selling, General and Administrative Expenses**

	First Three Quarters			
	2023	2022	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Selling, general and administrative expenses	\$ 2,407,683	\$ 1,954,340	\$ 453,343	23.2 %
Selling, general and administrative expenses as a percentage of net revenue	37.5 %	36.6 %	90 basis points	

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

- an increase in head office costs of \$258.0 million, comprised of:
  - an increase in employee costs of \$90.1 million primarily due to increased salaries and wages expense as well as increased incentive compensation, benefit costs, and stock-based compensation; primarily as a result of headcount growth and increased wage rates;
  - an increase in brand and community costs of \$73.2 million primarily due to increased marketing expenses as well as increased charitable donations;

- an increase in depreciation of \$34.1 million;
- an increase in technology costs, including cloud computing amortization, of \$32.1 million; and
- an increase in other head office costs of \$28.5 million, primarily due to increased professional fees.
- an increase in costs related to our operating channels of \$213.1 million, comprised of:
  - an increase in employee costs of \$109.7 million primarily due to increased salaries and wages expense, incentive compensation, and benefit costs in our company-operated stores channel, primarily from the growth in our business and increased wage rates;
  - an increase in other operating costs of \$45.3 million primarily due to increased depreciation costs, technology costs, and repairs and maintenance costs;
  - an increase in variable costs of \$39.5 million primarily due to increased credit card fees, distribution costs, and packaging costs, primarily as a result of increased net revenue; and
  - an increase in brand and community costs of \$18.6 million primarily due to increased digital marketing expenses related to our direct to consumer channel.

The increase in selling, general and administrative expenses was partially offset by a decrease in net foreign currency exchange and derivative revaluation losses of \$17.8 million.

**Impairment of Assets and Restructuring Costs**

	First Three Quarters			
	2023	2022	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Impairment of assets and restructuring costs	\$ 74,501	\$ —	\$ 74,501	n/a

During the third quarter of 2023, we recognized certain asset impairments and restructuring costs related to lululemon Studio. Please refer to Note 3. Impairment of Assets and Restructuring Costs included in Item 1 of Part I of this report for further information.

**Amortization of Intangible Assets**

	First Three Quarters			
	2023	2022	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Amortization of intangible assets	\$ 5,010	\$ 6,579	\$ (1,569)	(23.8)%

The amortization of intangible assets was primarily the result of the amortization of intangible assets recognized upon the acquisition of MIRROR, which we rebranded as lululemon Studio.

**Gain on Disposal of Assets**

	First Three Quarters			
	2023	2022	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Gain on disposal of assets	\$ —	\$ (10,180)	\$ 10,180	(100.0)%

During the second quarter of 2022, we completed the sale of an administrative office building, which resulted in a pre-tax gain of \$10.2 million.

## Income from Operations

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

	First Three Quarters				
	2023	2022	2023	2022	Year over year change
	(In thousands)		(Percentage of net revenue of respective operating segment)		(In thousands) (Percentage)
Segmented income from operations:					
Company-operated stores	\$ 910,021	\$ 660,246	29.1 %	26.0 %	\$ 249,775 37.8 %
Direct to consumer	1,137,716	933,272	43.1	41.2	204,444 21.9
Other	146,293	74,064	22.6	13.8	72,229 97.5
	\$2,194,030	\$1,667,582			\$ 526,448 31.6 %
General corporate expense	872,024	657,201			214,823 32.7
lululemon Studio obsolescence provision	23,709	—			23,709 n/a
Impairment of assets and restructuring costs	74,501	—			74,501 n/a
Amortization of intangible assets	5,010	6,579			(1,569) (23.8)
Gain on disposal of assets	—	(10,180)			10,180 (100.0)
Income from operations	\$1,218,786	\$1,013,982			\$ 204,804 20.2 %
Operating margin	19.0 %	19.0 %			0 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 \$396.0 million, driven by increased net revenue and higher gross margin. The increase in gross margin was primarily due to higher product margin driven by lower freight costs and lower markdowns, partially offset by higher inventory provisions, shrink, and damages. The increase in gross margin was also due to leverage on depreciation costs, partially offset by an unfavorable impact of foreign currency exchange rates and deleverage in costs from our product teams. 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, incentive compensation, and benefit costs as a result of the growth in our business and increased wage rates. Store operating costs increased primarily due to increases in credit card fees and packaging costs as a result of higher net revenue, as well as increased repairs and maintenance. Income from operations as a percentage of company-operated store net revenue increased due to higher gross margin, partially offset by deleverage on selling, general and administrative expenses.

**Direct to Consumer.** The increase in income from operations from our direct to consumer segment was primarily the result of increased gross profit of \$311.3 million, driven by increased net revenue and higher gross margin. The increase in gross margin was primarily due to higher product margin driven by lower freight costs, partially offset by higher markdowns and higher inventory provisions and damages. The increase in gross margin was partially offset by an unfavorable impact of foreign currency exchange rates and deleverage in costs from our product teams and distribution centers. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses primarily due to higher digital marketing expenses, higher variable operating costs including distribution costs, credit card fees, and packaging costs as a result of higher net revenue, as well as higher depreciation costs and higher technology costs. Income from operations as a percentage of direct to consumer net revenue increased primarily due to higher gross margin, partially offset by deleverage on selling, general and administrative expenses.

**Other.** The increase in income from operations from our other channels was primarily the result of increased gross profit of \$57.7 million, driven by increased net revenue and higher gross margin. The increase in income from operations from our other channels was partially offset by an increase in selling, general and administrative expenses driven by higher salaries and wages expense, higher repairs and maintenance, and professional fees, partially offset by reduced lululemon Studio marketing expenses. Income from operations as a percentage of other net revenue increased primarily due to leverage on selling, general and administrative expenses and higher gross margin.

**General Corporate Expense.** The increase in general corporate expense was primarily due to increased employee costs, primarily from headcount growth and increased wage rates, as well as increased brand and community costs, depreciation, technology costs, and professional fees. The increase in general corporate expense was partially offset by a decrease in net foreign currency exchange and derivative revaluation losses of \$17.8 million.

### Other Income (Expense), Net

	First Three Quarters		
	2023	2022	Year over year change
	<i>(In thousands)</i>		<i>(Percentage)</i>
Other income (expense), net	\$ 25,229	\$ 454	\$ 24,775 n/a

The increase in other income, net was primarily due to an increase in interest income as a result of higher interest rates and higher cash balances.

### Income Tax Expense

	First Three Quarters		
	2023	2022	Year over year change
	<i>(In thousands)</i>		<i>(Percentage)</i>
Income tax expense	\$ 363,293	\$ 279,447	\$ 83,846 30.0 %
Effective tax rate	29.2 %	27.5 %	170 basis points

The increase in the effective tax rate was primarily due to the accrual of withholding taxes on unremitted foreign earnings, adjustments upon the filing of income tax returns, and a lower tax rate on certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio which increased the effective tax rate in the first three quarters of 2023 by 20 basis points. A lower tax rate on the capital gain on the sale of an administrative building reduced our effective tax rate in the first three quarters of 2022 by 20 basis points. The increase in the effective tax rate was partially offset by a reduction in non-deductible expenses in international jurisdictions.

Excluding certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio in 2023, and the gain on sale of an administrative building in 2022, and their tax effects, our adjusted effective tax rates were 29.0% and 27.7% for the first three quarters of 2023 and 2022, respectively.

### Net Income

	First Three Quarters		
	2023	2022	Year over year change
	<i>(In thousands)</i>		<i>(Percentage)</i>
Net income	\$ 880,722	\$ 734,989	\$ 145,733 19.8 %

The increase in net income was primarily due to an increase in gross profit of \$741.3 million and an increase in other income (expense), net of \$24.8 million, partially offset by an increase in selling, general and administrative expenses of \$453.3 million, an increase in income tax expense of \$83.8 million, asset impairment and restructuring costs recognized in relation to lululemon Studio in 2023 of \$74.5 million, and a gain on disposal of assets of \$10.2 million in the prior year. Excluding certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio in 2023, and the gain on sale of an administrative building in 2022, and their tax effects, adjusted net income increased \$226.4 million or 31%.

### 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.

Adjusted gross profit, gross margin, income from operations, operating margin, income tax expense, effective tax rates, net income, and diluted earnings per share exclude certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio, the gain on disposal of assets for the sale of an administrative office building, and the related income tax effects of these items. We believe these adjusted financial measures are useful to investors as they provide supplemental information that enable evaluation of the underlying trend in our operating performance, and enable a comparison to our historical financial information. Further, due to the finite and discrete nature of these items, we do not consider them to be normal operating expenses that are necessary to run our business, or impairments or disposal gains that are expected to arise in the normal course of our operations.

Management uses these adjusted financial measures and constant currency metrics internally when reviewing and assessing financial performance.

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. Our non-GAAP financial measures may be calculated differently from, and therefore may not be directly comparable to, similarly titled measures reported by other companies.

**Constant Dollar Changes in Net Revenue**

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

	Third Quarter 2023		First Three Quarters 2023	
	Net Revenue		Net Revenue	
	<i>(In thousands)</i>	<i>(Percentage)</i>	<i>(In thousands)</i>	<i>(Percentage)</i>
Change	\$ 347,329	19 %	\$ 1,075,495	20 %
Adjustments due to foreign currency exchange rate changes	11,098	—	82,201	2 %
Change in constant dollars	\$ 358,427	19 %	\$ 1,157,696	22 %

**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.

	Third Quarter 2023			First Three Quarters 2023		
	Total Comparable Sales <sup>(1),(2)</sup>	Comparable Store Sales <sup>(2)</sup>	Direct to Consumer Net Revenue	Total Comparable Sales <sup>(1),(2)</sup>	Comparable Store Sales <sup>(2)</sup>	Direct to Consumer Net Revenue
Change	13 %	9 %	18 %	13 %	10 %	16 %
Adjustments due to foreign currency exchange rate changes	1	—	1	1	1	2
Change in constant dollars	14 %	9 %	19 %	14 %	11 %	18 %

<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.

**Adjusted financial measures**

The following tables reconcile adjusted financial measures with the most directly comparable measures calculated in accordance with GAAP. The 2023 adjustments relate to certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio and their related tax effects. The 2022 adjustments relate to the gain on sale of an administrative office building and its related tax effects. Please refer to Note 3. Impairment of Assets and Restructuring Costs and Note 4. Gain on Disposal of Assets included in Item 1 of Part I of this report for further information on the nature of these amounts.

	Third Quarter 2023							
	Gross Profit	Gross Margin	Income from Operations	Operating Margin	Income Tax Expense	Effective Tax Rate	Net Income	Diluted Earnings Per Share
<i>(In thousands, except per share amounts)</i>								
GAAP results	\$ 1,256,664	57.0 %	\$ 338,115	15.3 %	\$ 99,243	28.5 %	\$ 248,714	\$ 1.96
lululemon Studio charges:								
lululemon Studio obsolescence provision	23,709	1.1	23,709	1.1			23,709	0.19
Impairment of assets			44,186	2.0			44,186	0.35
Restructuring costs			30,315	1.4			30,315	0.24
Tax effect of the above					26,085	(0.4)	(26,085)	(0.21)
	23,709	1.1	98,210	4.5	26,085	(0.4)	72,125	0.57
Adjusted results (non-GAAP)	\$ 1,280,373	58.1 %	\$ 436,325	19.8 %	\$ 125,328	28.1 %	\$ 320,839	\$ 2.53

	First Three Quarters 2023							
	Gross Profit	Gross Margin	Income from Operations	Operating Margin	Income Tax Expense	Effective Tax Rate	Net Income	Diluted Earnings Per Share
<i>(In thousands, except per share amounts)</i>								
GAAP results	\$ 3,705,980	57.8 %	\$ 1,218,786	19.0 %	\$ 363,293	29.2 %	\$ 880,722	\$ 6.92
lululemon Studio charges:								
lululemon Studio obsolescence provision	23,709	0.3	23,709	0.3			23,709	0.19
Impairment of assets			44,186	0.7			44,186	0.35
Restructuring costs			30,315	0.5			30,315	0.24
Tax effect of the above					26,085	(0.2)	(26,085)	(0.21)
	23,709	0.3	98,210	1.5	26,085	(0.2)	72,125	0.57
Adjusted results (non-GAAP)	\$ 3,729,689	58.1 %	\$ 1,316,996	20.5 %	\$ 389,378	29.0 %	\$ 952,847	\$ 7.49

	First Three Quarters 2022					
	Income from Operations	Operating Margin	Income Tax Expense	Effective Tax Rate	Net Income	Diluted Earnings Per Share
<i>(In thousands, except per share amounts)</i>						
GAAP results	\$ 1,013,982	19.0 %	\$ 279,447	27.5 %	\$ 734,989	\$ 5.74
Gain on disposal of assets	(10,180)	(0.2)			(10,180)	(0.08)
Tax effect of the above			(1,661)	0.2	1,661	0.01
Adjusted results (non-GAAP)	\$ 1,003,802	18.8 %	\$ 277,786	27.7 %	\$ 726,470	\$ 5.67

### 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 typically generated in the fourth quarter of our fiscal year. For example, we generated approximately 44% of our full year operating profit during the fourth quarter of 2021. Our operating profits in 2022 were not weighted towards our fourth quarter primarily due to the impairment of goodwill and other assets recognized in relation to lululemon Studio during that quarter.

### 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, including to fund short-term working capital requirements. Our primary cash needs are capital expenditures for opening new stores and remodeling or relocating existing stores, investing in our distribution centers, 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 Three Quarters		
	2023	2022	Year over year change
	<i>(In thousands)</i>		
Total cash provided by (used in):			
Operating activities	\$ 912,066	\$ (79,801)	\$ 991,867
Investing activities	(445,325)	(386,862)	(58,463)
Financing activities	(510,583)	(399,428)	(111,155)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(19,887)	(41,156)	21,269
Increase (decrease) in cash and cash equivalents	\$ (63,729)	\$ (907,247)	\$ 843,518

### **Operating Activities**

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

- an increase in cash flows from the changes in operating assets and liabilities of \$613.9 million, primarily driven by changes in inventories, prepaid expenses and other current assets, and accounts payable, partially offset by changes in income taxes;
- changes in adjusting items of \$232.2 million, primarily driven by certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio, as well as increased depreciation and higher cash inflows related to derivatives; and
- increased net income of \$145.7 million.

### **Investing Activities**

The increase in cash used in investing activities was primarily due to increased capital expenditures and the settlement of net investment hedges. The increase in capital expenditures was primarily due to investment in our distribution centers as well as technology infrastructure and digital investments, partially offset by a slight decrease in company-operated store expenditures.

### **Financing Activities**

The increase in cash used in financing activities was primarily the result of an increase in our stock repurchases. During the first three quarters of 2023, 1.4 million shares were repurchased at a total cost including commissions and excise taxes of \$504.6 million. During the first three quarters of 2022, 1.2 million shares were repurchased at a total cost including commissions of \$375.0 million. 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:

	October 29, 2023
	<i>(In thousands)</i>
Cash and cash equivalents	\$ 1,091,138
Working capital excluding cash and cash equivalents <sup>(1)</sup>	825,647
Capacity under committed revolving credit facility	393,361

<sup>(1)</sup> Working capital is calculated as current assets of \$3.4 billion less current liabilities of \$1.4 billion.

We enter into standby letters of credit and guarantee to secure certain of our obligations, including leases, taxes, and duties. As of October 29, 2023, letters of credit and guarantee totaling \$10.0 million had been issued, including \$6.6 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 October 29, 2023, aside from letters of credit and guarantee of \$6.6 million, we had no other borrowings outstanding under this credit facility. Further information regarding our credit facilities and associated covenants is outlined in Note 5. Revolving Credit Facilities and Supply Chain Financing Program included in Item 1 of Part I of this report.

The timing and cost of our inventory purchases will vary depending on a variety of factors such as revenue growth, assortment and purchasing decisions, product costs including freight and duty, and the availability of production capacity and speed. Our inventory balance as of October 29, 2023 was \$1.7 billion, a decrease of 4% from October 30, 2022.

### 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 significant 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, estimates, and judgements are discussed within "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2022 Annual Report on Form 10-K filed with the SEC on March 28, 2023.

## Operating Locations

Our company-operated stores by country as of October 29, 2023 and January 29, 2023 are summarized in the table below.

Number of company-operated stores by country (market)	October 29, 2023	January 29, 2023
United States	361	350
People's Republic of China <sup>(1)</sup>	133	117
Canada	70	69
Australia	32	32
United Kingdom	20	20
South Korea	18	16
Germany	9	10
New Zealand	8	8
Singapore	7	8
Japan	7	7
France	5	4
Ireland	4	4
Spain	3	3
Malaysia	2	2
Sweden	2	2
Netherlands	2	1
Norway	1	1
Switzerland	1	1
Thailand	1	—
Total company-operated stores	686	655

<sup>(1)</sup> PRC included 114 stores in China Mainland, nine stores in Hong Kong Special Administrative Region, eight stores in Taiwan, and two stores in Macao Special Administration Region, as of October 29, 2023. As of January 29, 2023, there were 99 stores in China Mainland, nine stores in Hong Kong Special Administrative Region, seven 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 October 29, 2023, there were 38 licensed locations, including 18 in Mexico, six in the United Arab Emirates, six in Saudi Arabia, three in Qatar, three in Kuwait, and two in Israel.

### 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 October 29, 2023, 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 8. 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 three quarters of 2023, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$54.5 million increase in accumulated other comprehensive loss within stockholders' equity. During the first three quarters of 2022, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$83.0 million increase in accumulated other comprehensive loss within stockholders' equity.

A 10% appreciation in the relative value of the U.S. dollar against the Canadian dollar compared to the foreign currency exchange rates in effect for the first three quarters of 2023 would have resulted in lower income from operations of approximately \$46.0 million. This assumes a consistent 10% appreciation in the U.S. dollar against the Canadian dollar over the first three quarters of 2023. 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 October 29, 2023, aside from letters of credit and guarantee of \$6.6 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 interest rate risk currently poses a material exposure to our business and results of operations.

**Credit Risk.** We have cash on deposit with what we believe are various large, reputable financial institutions and have invested in AAA-rated money market funds, which include investments in government bonds. 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 do not believe credit risk currently poses a material exposure to our business or results of operations. We seek to minimize our credit risk by entering into transactions with investment grade 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 and capital expenditures may adversely affect our operating results. During 2022 and the first three quarters of 2023, our operating margin was impacted by increased wage rates. During the three quarters of 2022, our gross margin was impacted by higher air freight costs as a result of global supply chain disruption.

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 operating margin 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 October 29, 2023. Based on that evaluation, our principal executive officer and principal financial and accounting officer concluded that, as of October 29, 2023, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting during the quarter ended October 29, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.